The Economist
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Politics this week

The fighting between Colonel Muammar Qaddafi's forces and those rebelling against him moved to and fro along the coast road between the oil town of Brega and Benghazi, the rebels' capital in the east. The Americans handed control of the anti-Qaddafi coalition to NATO, which continued its assault on the **Libyan** government's ground forces from the air. See article

More than 250 migrants were reported to have drowned after a boat that set off from Libya carrying 300-odd people, mostly from Bangladesh, Chad, Cote d'Ivoire, Nigeria, Somalia and Sudan, sank on April 6th off the Italian island of **Lampedusa**.

President Ali Abdullah Saleh of **Yemen** struggled to stay in charge in the face of growing demonstrations in the capital and unrest across a divided country. In a policy shift, meanwhile, the American administration signalled that it would like Mr Saleh to be eased out of office, despite fears that al-Qaeda might fill the vacuum if he departed. See article

Richard Goldstone, a South African judge who headed a UN inquiry into Israel's three-week war on Gaza two years ago, recanted a key finding of his original report. He says that he now believes Israel did not intentionally target civilians "as a matter of policy".

The palace compound of **Cote d'Ivoire's** Laurent Gbagbo, in Abidjan, was surrounded by UN and French troops. He was defeated in a presidential election in November but has refused to step down. Forces loyal to the election winner, Alassane Ouattara, have conquered the rest of the country. Hundreds of people have been killed in the past fortnight. See article

Toxic water, water everywhere

Radioactive water from **Japan's** stricken nuclear power plant seeped into the sea around Fukushima. The leak was sealed on April 6th as engineers were forced to dump 11,500 tonnes of less contaminated water into the ocean to make room for fresh coolant. Japan acknowledged that South Korea and China were not adequately consulted about the situation. See article

China's government detained Ai Weiwei, a Chinese artist and dissident, for "economic crimes" after preventing him from boarding a flight bound for Hong Kong. His whereabouts had been unknown for days. A state newspaper chided Mr Ai for being a political "maverick". See article

Kazakhstan re-elected Nursultan Nazarbayev as its president with 95.5% of the vote. Mr Nazarbayev is popular among his countrymen but the near-perfect result is an embarrassment for the foreign governments that applauded him for calling the election. Even an opposition candidate voted for him. See article

Two suicide-bombers in **Pakistan's** Punjab province blew themselves up near a Sufi shrine, killing at least 50 people and injuring 100.

Thousands of **Afghans** protested about the actions of Christian bigots in Florida who had burned a Koran on March 20th. Seven foreign UN staff and guards were killed in Mazar-i-Sharif, while a dozen people died in clashes with police in Kandahar. See article

He'll be back

To no one's surprise, **Barack Obama** announced that he is to seek re-election as president in 2012. In his opening message, he called for a big push on fund-raising, and some analysts reckon he might raise as much as $1 billion, shattering all records. Only one serious Republican candidate has so far entered the race for that party's nomination.

As *The Economist* went to press, the threat of a government **shutdown** in America loomed large; the Republicans and the Democrats had so far failed to agree on a fresh extension of funds, meaning that non-essential functions could be shut down as soon as April 9th. See article

Paul Ryan, the chairman of the House Budget Committee, submitted his version of a budget for fiscal year 2012, which begins in October. Mr Ryan proposes to spend $6.2 trillion less over the next ten years than Mr Obama does. Mr Ryan's proposals include, in effect, privatising Medicare, the government-run health scheme for the elderly. See article

Stepping aside

Guido Westerwelle resigned as leader of **Germany's** Free Democratic Party, a junior coalition member, and as federal vice-chancellor, following the party's poor performances at recent state elections. Philipp Rosler, the 38-year-old health minister, will replace him in both roles, although Mr Westerwelle wants to stay as foreign minister, a position in which he has attracted much criticism. See article

Jose Luis Rodriguez Zapatero, **Spain's** unpopular prime minister, said that he would not stand for a third term at a general election due by early 2012. The ruling Socialist Party is expected to hold primaries to elect Mr Zapatero's successor as party leader after local elections on May 22nd. See article

Ronan Kerr, a Catholic **Northern Irish** police officer, was killed by a bomb planted under his car. No one claimed responsibility for the attack but republicans opposed to the peace process are being blamed. Mr Kerr is the second officer to have been killed since the province's police service was reformed in 2001. See article

A comfortable win

Preliminary results released by the electoral authority showed Michel Martelly, a conservative and a popular singer, winning **Haiti's** presidential election, with 67.6% of the vote. He will take office in May, charged with speeding up the country's reconstruction after last year's earthquake. See article

In **Mexico**, protests against drug-related violence in many cities across the country were interrupted when police in Tamaulipas state found 59 bodies in eight graves, including one that had 43 corpses buried in it.

Ecuador expelled the American ambassador to Quito, Heather Hodges, after she was quoted in a leaked diplomatic cable as saying that the country's police suffered from generalised corruption. Ms Hodges's departure follows the resignation of Carlos Pascual as American ambassador to Mexico, after his frank assessment of the shortcomings of Mexico's police was similarly WikiLeaked.

American officials said that they had reached an agreement under which **Colombia** will strengthen its efforts to protect trade unionists, clearing the way for a free-trade agreement between the two countries to be sent to the **United States** Congress.

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Business this week

After long insisting on going it alone, **Portugal** announced that it would seek a bail-out from its euro-zone partners. The country follows Greece and Ireland in asking for help. The decision came after ten-year government-bond yields came within a whisker of 9% and rates on 12-month and six-month treasury bills sold in a euro1.0 billion ($1.4 billion) auction jumped by more than one and a half percentage points compared with similar sales in March. See article

Stressed out

Further stress tests of **Ireland's banks** revealed that they need an extra euro24 billion ($34.4 billion) of capital. That would push the total cost of the government bail-out to around euro70 billion, bringing almost all of the Irish banking industry under state control.

Banks elsewhere in Europe made efforts to bolster their capital bases before the Basel 3 rules begin to bite. **Intesa Sanpaolo**, an Italian lender, decided to issue new shares worth as much as euro5 billion ($7.2 billion). In Germany **Commerzbank** said it planned to raise euro8.25 billion to help repay the money it got in a government rescue. See article

Texas Instruments, a maker of computer chips, offered to buy **National Semiconductor**, an American rival, for $6.5 billion. American and European technology stocks rallied on the news.

NASDAQ OMX Group joined **IntercontinentalExchange**, a smaller American trading platform, in an attempt to swipe **NYSE Euronext** from under the nose of Deutsche Borse. The German company had agreed to pay $9.6 billion for the New York exchange group in February. NASDAQ and ICE are offering $11.3 billion. Their bid, which would create an entity with 50% of America's share-trading market, is expected to face scrutiny from antitrust regulators.

Australia's government said it might thwart an A$8.4 billion ($8.7 billion) bid by **Singapore Exchange** for **ASX**, the main Australian bourse, citing "national interest". The combined exchange would be Asia's second largest by the number of listings.

Not so jolly Roger

Roger Agnelli was ousted as boss of **Vale** after refusing to bow to pressure from Brazil's government, which indirectly controls the mining giant, to pare back plans to expand and diversify abroad, and to focus instead on domestic growth. His departure is widely seen as a portent of a more active industrial policy by the government of the country's president, Dilma Rousseff. Mr Agnelli will be replaced by Murilo Ferreira, who returns to Vale after a three-year stint at an investment company.

A Chinese state-owned mining company, **Minmetals Resources**, made a C$6.3 billion ($6.5 billion) offer for **Equinox Minerals**, an Australian-Canadian owner of a large copper mine in Zambia. The unsolicited bid, financed entirely with cash, is the biggest yet for a Chinese mining firm. China consumes around 40% of the world's copper and is concerned about competition for supplies of the metal. Copper's price remains high, though it has slipped by around 5% from February's stratospheric levels.

Increasingly alarmed by an overheating economy, the **People's Bank of China** raised interest rates for the fourth time in five months. The rise of a quarter of a percentage point, to 6.31% for the one-year lending rate and 3.25 for the deposit rate, came as a surprise, leading analysts to suppose that inflation in March had been higher than expected.

Just weeks after T-Mobile decided to sell its American arm to AT&T, consolidation in domestic mobile-telecoms markets continues apace. **Vivendi**, a French media group, agreed to pay Britain's **Vodafone** euro8 billion ($11.2 billion) for the 44% it does not already own in SFR, a French mobile-phone operator. The sale, with earlier disposals of stakes in Japan's Softbank and China Mobile, will help Vodafone repay debt before an auction of spectrum for fourth-generation mobile networks in Britain early next year.

Cesare Geronzi unexpectedly quit as chairman of **Generali**, Italy's biggest insurer. Some blamed the company's poor recent performance on meddling by the septuagenarian Mr Geronzi, who is said to epitomise old-style Italian capitalism. Generali's share price rose by 5% on the news.

Grand theft e-mail

A **hacker** pilfered e-mails from Epsilon, an American marketing-services firm, which handles 40 billion e-mails each year on behalf of around 2,500 corporate clients. Prominent customers affected by the data breach are said to include Citigroup, Marks & Spencer and the Marriott hotel chain. Epsilon assured its clients that the leak was confined to e-mail addresses and did not compromise their customers' financial information. See article

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Daily Chart

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Pensions

70 or bust!

Current plans to raise the retirement age are not bold enough

PUT aside the cruise brochures and let the garden retain that natural look for a few more years. Demography and declining investment returns are conspiring to keep you at your desk far longer than you ever expected.

This painful truth is no longer news in the rich world, and many governments have started to deal with the ageing problem. They have announced increases in the official retirement age that attempt to hold down the costs of state pensions while encouraging workers to stay in their jobs or get on their bikes and look for new ones.

Unfortunately, the boldest plans look inadequate. Older people are going to have to stay economically active longer than governments currently envisage; and that is going to require not just governments, but also employers and workers, to behave differently.

Trying, but not very hard

Since 1971 the life expectancy of the average 65-year-old in the rich world has improved by four to five years. By 2050, forecasts suggest, they will add a further three years on top of that. Until now, people have converted all that extra lifespan into leisure time. The average retirement age in the OECD in 2010 was 63, almost one year lower than in 1970.

Living longer, and retiring early, might not be a problem if the supply of workers were increasing. But declining fertility rates imply that by 2050 there will be just 2.6 American workers supporting each pensioner and the figures for France, Germany and Italy will be 1.9, 1.6 and 1.5 respectively. The young will be shoring up pensions systems which, as our special report this week explains, are riddled with problems.

Most governments are already planning increases in the retirement age. America is heading for 67, Britain for 68. Others are moving more slowly. Belgium allows women to retire at 60, for instance, and has no plans to change that. Under current policies the mean retirement age by 2050 will still be less than 65, barely higher than it was after the second world war.

Because life expectancy continues to rise-people in rich countries are gaining a little under a month a year-even the American and British plans are inadequate. In Europe the retirement age should be raised to 70 by 2040; America, with a younger population, can afford to keep it a smidgen lower.

Working longer has three great advantages. The employee gets more years of wages; the government receives more in taxes and pays out less in benefits; and the economy grows faster as more people work for longer. Older workers are a neglected consumer market, as our briefing on the media's ageing audiences explains (see article).

Yet too many people see longer working lives as a worry rather than an opportunity-and not just because they are going to be chained to their desks. Some fret that there will not be enough jobs to go around. This misapprehension, known to economists as the "lump of labour fallacy", was once used to argue that women should stay at home and leave all the jobs for breadwinning males. Now lump-of-labourites say that keeping the old at work would deprive the young of employment. The idea that society can become more prosperous by paying more of its citizens to be idle is clearly nonsensical. On that reasoning, if the retirement age came down to 25 we would all be as rich as Croesus.

Raising the official retirement age is only part of the solution, for many workers retire before the official age. Martin Baily and Jacob Kirkegaard of the Peterson Institute in Washington, DC, reckon that raising actual EU retirement ages to the official age would offset the impact of an ageing population over the next 20 years.

For that to happen, working practices and attitudes need to change. Western managers worry too much about the quality of older workers (see Schumpeter). In physically demanding occupations, it is true, some may be unable to work into their late 60s. The incapacitated will need disability benefits. Others will need to find a different job. But this should be less of a problem than it used to be now that economies are based on services not manufacturing. In knowledge-based jobs, age is less of a disadvantage. Although older people reason more slowly, they have more experience and, by and large, better personal skills. Even so, most people's productivity does eventually decline with age; and pay needs to reflect this falling-off. Traditional seniority systems, under which people get promoted and paid more as they age, therefore need to change.

The missing $3 trillion

The huge cost of pension schemes is being dealt with in the private sector. Final-salary schemes are hardly ever offered to new employees these days. In the public sector, however, they are still standard. In Britain the recent report by Lord Hutton made some sensible suggestions for reform (see article). The accrued rights of workers should be maintained but their future pension rights should be based on the state retirement age (many public-sector workers currently retire early) and on a career average, rather than final, salary. That would both prevent abuses and make part-time working easier.

The public-sector pension problem is sharpest in American states. The deficits in their pension funds may amount to $3 trillion. They face legal and constitutional constraints that prevent them from following the British lead. Unlike wages, pension promises have been deemed, weirdly, to be permanent and sacrosanct. But as budget pressures bite, politicians are going to have to change laws and constitutions.

Private-sector workers face a different problem. The demise of final-salary pensions leaves them facing two big risks: that falling markets will undermine their retirement planning, and that they will outlive their savings. So governments should encourage workers to save more, nudging them into pension schemes by requiring them to opt out rather than opt in. And the basic state pension should be high enough to give those unlucky elderly with insufficient savings a decent income, without penalising those who have been thrifty. That is the least people deserve in return for toiling until they are 70.

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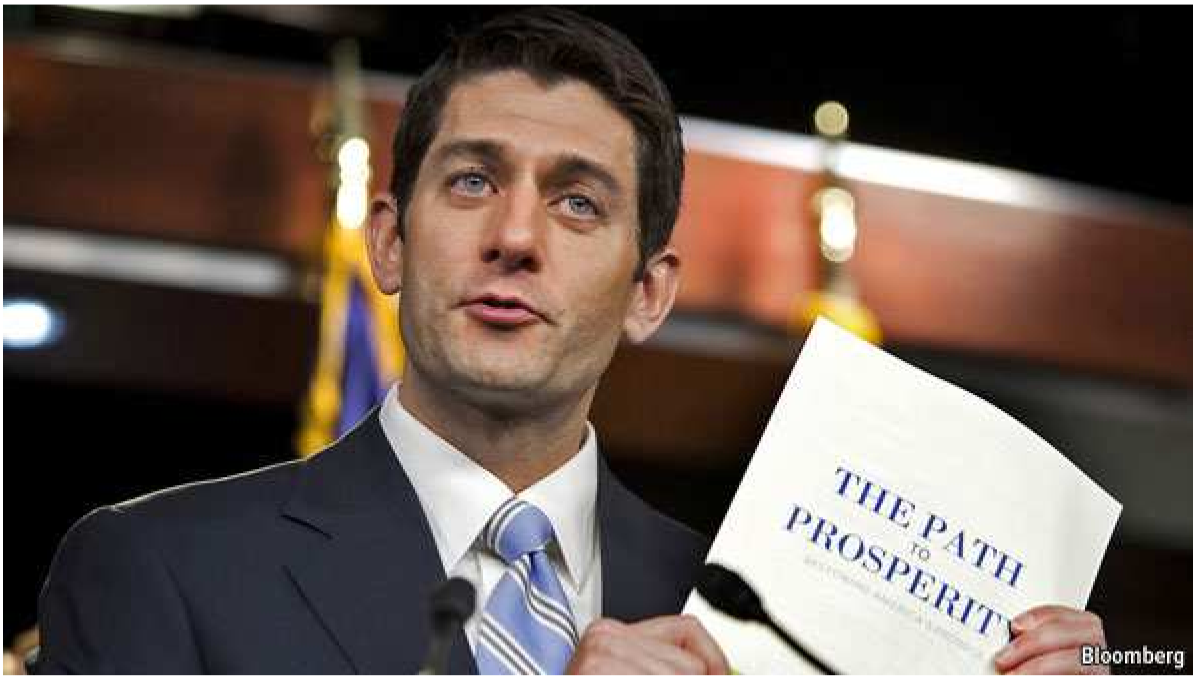
The Republican budget

Praising Congressman Ryan

At long last somebody is trying to grapple with America's fiscal troubles



BARACK OBAMA, as we unhappily noted when he produced his budget in February, has no credible plan for getting America's runaway budget deficit under control. Up to now the Republicans have been just as useless; they have confined themselves to provoking a probable government shutdown in pursuit of a fantasy war against the non-security discretionary expenditures that make up only an eighth of the total budget, rather than tackling the long-term problem posed by the escalating costs of entitlements. The only people with the guts to talk about such things have been various independent commissions which the two parties have ignored.

Now that has changed. On April 5th Paul Ryan, the young chairman of the House Budget Committee, laid out a brave counter-proposal for next year's budget and beyond (see article)-brave both in identifying the scope of the problem and in proposing the kind of deeply unpopular medicine that will be needed to cope with it. It is far from perfect; but it is the first sign of courage from someone with actual power over the budget.

Unlike Mr Obama, Mr Ryan puts fiscal responsibility at the centre of his plan: it aims to bring the budget into primary balance as early as 2015 and federal government spending down to below 20% of GDP in 2018. He also outlines a simplification of America's mad tax code, bringing the top rate for both individuals and businesses down to 25% by eliminating loopholes. Above all, he aims at the core of the problem, the ever-rising cost of health care for the elderly.

At the moment, retirees in America are entitled to Medicare, an all-you-can-eat buffet of care provided by the private sector but paid for by government-run insurance. Under Mr Ryan's scheme, future retirees would have to take out private insurance plans, helped by a government subsidy. The effect would be a bit like changing from a defined-benefit pension to a defined-contribution one. The savings come because the subsidy would not cover everything that is currently

provided: people will either end up with less lavish care or have to pay more. Mr Ryan also wants to turn Medicaid, government-financed health care for the poor, over to the states in the form of "block grants". This would force them to manage their budgets more responsibly than they have needed to when they have been able to send much of the tab to Washington.

Let the debate begin

There is plenty wrong with Mr Ryan's plan. Too much of the gain goes to the rich, and too much of the pain is felt by the poor. Some of his figures are deeply suspect. Mr Ryan should not have ruled out any revenue gain from broadening the tax base. He says nothing substantive about Social Security. He would cancel Obamacare, which though flawed addresses one of America's great problems. And there are practical difficulties: his proposals are far too radical to engender the sort of compromise needed in Washington. Even if the plan passes the Republican-controlled House (by no means certain), it will fail in the Democrat-controlled Senate.

Yet at least Mr Ryan accepts that the present system is unaffordable and destined to collapse. Everyone else, including Mr Obama, is pretending that it isn't. Mr Ryan's willingness to confront the scale of the problem has set a standard by which other proposals will now have to be judged. And there might even be political mileage in telling the truth. Two years ago, when Britain's prime minister, Gordon Brown was unable to mention the word "cuts", George Osborne, the Tories' shadow chancellor, made a speech saying they were inevitable. It changed the political debate. Mr Brown's protestations looked increasingly ridiculous. Mr Obama should take note.

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Portugal

The third bail-out

How to make sure the latest bail-out marks the beginning of the end of the euro zone's debt crisis

IT MAY have been inevitable, but it was a sad moment for Portugal: Europe's oldest nation state brought low. In a prime-time television address on April 6th, after months of denial, Portugal's caretaker prime minister, Jose Socrates (pictured), at last admitted what had long been obvious to everyone else: his country needed a rescue loan from the European Union.

Portugal now joins Greece and Ireland in the euro zone's intensive-care ward. Its public debts are nowhere near as monumental as Greece's; its banks not as reckless as Ireland's. It has succumbed because of a humdrum failure to rein in wage increases and to modernise a bureaucracy schooled in tallying the quiet remains of the first global empire, as well as an inability to coax upstanding family companies, which for centuries have crafted textiles, ceramics and shoes, into competing with the Chinese. As a result, harsh as it may seem, a country whose collective memory is still scarred by the austerity demanded by the IMF in the early 1980s must once again subject itself to tough reforms demanded by foreigners.

However painful for its citizens, Portugal's plight will not shock financial markets. The spreads on its debt have been climbing for weeks, particularly since Mr Socrates's government fell on March 23rd after failing to win support for yet more austerity measures (see article). By April 6th ten-year bond yields had reached almost 9%, and the government had to pay almost 6% to borrow money for just a year. No country with a stagnant economy and a big debt stock can do that for long. Mr Socrates's decision represents a recognition of the inevitable, not a sudden deterioration of the euro-zone mess.

Three things will now determine whether this marks the beginning of the end of the crisis-or the start of even deeper distress. The biggest immediate source of uncertainty will be the Portuguese government itself. Can a caretaker administration credibly agree on far-reaching reforms with a general election due on June 5th? Barely a week ago Portuguese officials said they lacked the constitutional authority to deal with either the IMF or the EU. Tellingly, they did not ask the fund for help on April 6th: Mr Socrates may be hoping for a bridge loan from Brussels without IMF involvement or many conditions. But the EU will surely not lend Portugal stacks of cash for long without the fund alongside or without tough reforms attached. Either Mr Socrates must get the opposition's endorsement for a deal or the negotiations could drag on until after the election. That could be dangerous; fears of endless delay could precipitate a bank run: Portugal has huge private-sector debt, much of it raised abroad and funnelled through its banks. Eventually, the country will have to sign up to a serious reform plan: the sooner the better.

A second risk is contagion. Investors are bound to ask: "Where next?" Spain is the most likely (and alarmingly big) candidate. Although the spreads on Spanish bond yields have narrowed sharply in recent weeks, and continued to fall on April 6th, it cannot be complacent. Its banks are heavily exposed to Portugal. Its prime minister, Jose Luis Rodriguez Zapatero, has announced that he is not standing for re-election. Freed from the need to court popularity, he should now redouble his efforts at reform.

What Brussels must do

But whether Portugal's capitulation marks a turning point in the euro zone's crisis depends at least as much on decisions in Brussels as on those in the Iberian peninsula. Getting Portugal's reform package right is the priority. The country surely has some financial skeletons: countries that borrow so heavily while growing so slowly usually do. But its main problem is a lack of competitiveness-which suggests a greater need for structural reform than for austerity. So top billing should go to deregulating cosseted industries and reforming the labour market. Portugal, one of the rich world's most rigid economies, must become one of the more flexible. Greece's experience (see article) shows how hard this will be.

European politicians' responsibilities do not stop there. This newspaper has repeatedly argued that the debts of Greece, Ireland and Portugal are unpayable and must be restructured. With all three countries now being "rescued", the politicians at Europe's core should start work immediately on an orderly restructuring of their debt. That will require a boldness that Europe's policymakers have lacked. But it is a prerequisite for drawing a line under the European debt mess.

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Add sugar and spice

India's sex ratio is getting worse. The trend can be reversed

THE news from India's 2011 census is almost all heartening. Literacy is up; life expectancy is up; family size is stabilising. But there is one grim exception. In 2011 India counted only 914 girls aged six and under for every 1,000 boys.

Without intervention, just a few more boys would be born than girls. If you compare the number of girls actually born to the number that would have been born had a normal sex ratio prevailed, then 600,000 Indian girls go missing every year. This is less distorted than the sex ratio in China, but whereas China's ratio has stabilised, India's is widening, and has been for decades. Sex selection is now invading parts of the country that used not to practise it.

India's sex ratio shows that gendercide is a feature not just of dictatorship and poverty. Unlike China, India is a democracy: there is no one-child policy to blame. Although parts of the country are poor, poverty alone does not explain India's preference for sons. The states with the worst sex ratios-Punjab, Haryana, Gujarat-are among the richest (see article), which suggests distorted sex selection will not be corrected just by wealth or government policy. But it can be corrected.

Parents choose to abort female fetuses not because they do not want or love their daughters, but because they feel they must have sons (usually for social reasons); they also want smaller families-and something has to give. Ultrasound technology ensures that this something is a generation of unborn daughters, because it lets them know the sex of a fetus. Sex selection therefore tends to increase with education and income: wealthier, better educated people are more likely to want fewer children and can more easily afford the scans.

But whereas sex selection may be understandable for a family, it is disastrous for a nation. It is an extreme expression of an attitude that says daughters are worth less than sons-a belief that is damaging both to women and to the next generation, since healthier, better educated mothers have healthier, better-educated children.

If sex ratios stay the same, 600,000 missing girls this year will become, in 18 years' time, over 10m missing future brides. Robbery, rape and bride-trafficking tend to increase in any society with large groups of young single men. And because in China and India men higher up the social ladder find wives more easily than those lower down, the social problems of bachelorhood tend to accumulate like silt among the poorest people and (in India) the lowest castes. This is unjust as well as damaging.

Over time, the problem may right itself-as the experience of South Korea, where a sex ratio that was highly distorted in the 1990s and is now approaching normality, suggests. In India, attitudes are changing. According to the latest census,

"female literacy, improving general health care, improving female employment rates [are] slowly redefining motherhood from childbearing to child rearing. Census 2011 is perhaps an indication that the country has reached a point of inflection"; and in the worst-affected areas, sex ratios are becoming less distorted. But governments need to hurry the process along.

Cherish the girls

India and China, to their credit, are trying to do so. India, for example, bans ultrasound scans from being used merely to identify a fetus's sex; it also makes sex-selective abortions illegal. But gendercide cannot be reduced just by coercive laws. In middle-income places, ultrasound scans are becoming basic prenatal procedures; it is all but impossible to stop parents from getting to know their child's sex. If a government cracks down on legal abortions, families will get illegal ones-risking the life of the mother, as well as that of her unborn daughter.

Far more effective would be to persuade parents that their daughters are worth as much as their sons. Changing social attitudes is a difficult thing for governments to do; but ensuring that girls get their fair share of education, and women their fair share of health care, would be a start.

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Russia's unruly north Caucasus

Islam inflamed

Muslim fundamentalism is on the rise in the north Caucasus. To stop it, Russian policy must change

THE world is fearful of Islam's rising influence in Afghanistan, Pakistan and across the newly restive Arab world. But it has barely noticed what is happening in Russia's troubled north Caucasus. After two decades of political and military failure in this violent part of the world, the government in Moscow is losing its legitimacy there, and fundamentalist Islam, which had no purchase in Soviet days, has taken hold.

The north Caucasus may take up only a small space on the map, but it looms large for Russia. The region has often decisively influenced the course of Russia's own development. Boris Yeltsin's decision to send in troops to stop Chechnya's march towards independence helped to weaken Russia's fledgling democracy in the mid-1990s. Vladimir Putin's vow to rub out Chechen rebels "in the shithouse" helped to propel him into the presidency. Eleven years on, the north Caucasus is still one of Russia's biggest headaches. Terrorist attacks, like the bombing at Domodedovo airport in January, have become almost commonplace. In its largely unreported fighting in the north Caucasus, Russia is suffering as many losses every year as Britain has lost in ten years in Afghanistan.

The Russians claim that their country is as vulnerable to Islamist terrorism and radicalism as anywhere in the West. That's true; yet the problems in the north Caucasus are largely of Russia's own making. Since the early 1990s Moscow's only policies have been brute force and money, first in Chechnya and then across the north Caucasus. Mr Putin's man in Chechnya, Ramzan Kadyrov, treats his republic like a fief. Everywhere corruption has become entrenched. And where Mr Yeltsin once invited Russia's republics to grab all the autonomy they could handle, Mr Putin unceremoniously scrapped regional elections after the terrorist killings in a Beslan school in 2004. All governors are now appointed by Moscow.

Islamist radicals in such republics as Dagestan and Ingushetia are as dangerous and difficult to fight as anywhere else. But in Russia the greatest source of their strength is not their ideology, their numbers or their money. It is the failure of the Russian state to provide even a semblance of justice and the rule of law, or even a pretence of local democracy and accountability. As our briefing explains (see article), indiscriminate persecution of Islamist fundamentalists has only strengthened their cause, especially in Dagestan.

Both the Kremlin and the authorities in the region must know that they need to change tactics. There is a glimmer of hope in Ingushetia, where an attempt by the governor, Yunus-Bek Yevkurov, to rule by law has produced some immediate and positive results. Meeting Mr Yevkurov this week, President Dmitry Medvedev declared that anyone who wants to come back to normal life should be given a chance. "You have to talk to all categories of people with their misconceptions, with their views on life, often disoriented and ready to commit a crime. People are what they are and we cannot change them." This is a welcome departure from Mr Putin's thuggish talk and the mindless anti-Caucasian chants often heard from nationalist youths in Moscow.

Mending starts in Moscow

A good beginning would be to restore regional elections for governors. Experience has shown that the worst way to protect Russia's territorial integrity is to impose direct rule from Moscow. As the north Caucasus illustrates, the country is just too big, too multiethnic and too diverse for centralised control not to fuel local resentment. For similar reasons, attempts at state control of religion in the region are likely to drive ordinary people into the arms of the fundamentalists. And, perhaps above all, giving the security forces, troops and local strongmen free rein to brutalise and corrupt people is not just wrong but also counter-productive.

It is impossible to fix the north Caucasus, or indeed any of the country's fissiparous regions, without dealing with Moscow's own larger defects. The corrosive mistrust of the state is a problem for Russia as a whole-it is just more extreme in the north Caucasus. And there, radicals are offering people an alternative in fundamentalist Islam.

There are new signs of competition for the top job in Russia between Mr Medvedev and Mr Putin (see article). But whoever ends up running the country after the election in 2012 must set out a more attractive vision for Russia's people-including those in the country's periphery-based on the rule of law. This might not stop the spread of radical Islam in the north Caucasus or eradicate all the rebels, but it would weaken their support. Sadly there is little sign of any such vision from the men in charge in Moscow.

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Letters

On shared value theory, Japanese leadership, intervention, AT&T, high-speed rail, immigration in Italy, Mormons, public utilities, quiz shows

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Letters are welcome via e-mail to letters@economist.com

The benefits of business

SIR - Schumpeter considered the merits of Michael Porter's "shared value" theory ("Oh, Mr Porter", March 12th) of how business might improve its benefit to society. Capitalism itself does not need reinventing. Instead, before businesses make changes to their supply chains or environmental policies, they need to remember-and perhaps re-imagine-their raison d'etre.

Society is more affected, for better or worse, by the core activity of a business than by its community investment projects, social initiatives and other peripheral activities. The biggest impact comes from the way business pursues profit and growth. Generalised statements about the purpose of business outside of profit are no substitute for the rigour of an enterprise defining its contribution to society through its core activities. This should shape its strategy, values and operations-and should then also be reflected in the traditional corporate social responsibility activities it undertakes.

Good businesses recognise and understand the contribution they make, alongside government and non-governmental organisations, to economic, environmental and social progress. According to our analysis, over a fifth of *Fortune* Global 500 companies already have a clear, society-focused purpose underpinning their activities. Let us all follow their lead.

John Connolly
Global chairman
Deloitte
David Sproul
CEO elect
Deloitte UK
London

A(nother) Japanese problem

SIR - To say that "Japan has gone without effective leadership for so long, with an endless procession of faceless prime ministers" ("A crisis of leadership, too", March 26th) is to impose on an oriental culture western leadership standards. The same criteria do not apply in Japan. Its culture does not reward highly visible or charismatic leaders like Churchill, Thatcher or Reagan: an often quoted proverb in Japan is, "The nail that stands up gets hammered down."

In a collective society like Japan's, a faceless prime minister is a good thing. He is the one of the group who is charged with getting things done-a facilitator, perhaps, but not a person who wants or needs to maintain a high profile. Criticise the government for not doing a good job, but singling out the prime minister for blame is missing the point.

Jonathan Rice
Hythe, Kent

SIR - Having watched man-made calamities affect victims in the wake of the catastrophes in Japan, I share the same misgivings about the systems and leadership you expressed. We have to cast away our docility and raise our legitimate voice of anger to our leaders. At the same time, we should not forget our determination to see this disaster as an opportunity in disguise. We must bravely abandon accustomed but obsolete systems and adopt ones more compatible with the changes we have seen taking place in Japan.

Masaro Sakashita
Osaka

Matters of principle

* SIR - Your leader ("Where will it end?", March 26th) construed an interesting argument on the propriety of NATO interventions in Libya, Yemen and Bahrain, synthesised as "you intervene when you can", not to prove a principle. I presume you were implying that political imperatives and concrete situations on the ground need to be taken into account in foreign policy decisions, which should not be based purely on principles.

Interestingly enough, the same edition contains an article on South Africa's foreign policy ("All over the place"), which accuses that country's government of being inconsistent for condemning elections in Myanmar while remaining silent on Robert Mugabe's Zimbabwe. Nevertheless, one could say that South Africa's policy considerations where guided by the same notion that led you to state that you do not intervene to prove a principle. What is to be understood from this apparent contradiction? Do you only criticise a country when you can-not to prove a principle?

Pedro Andrade
Rio de Janeiro

* SIR - You omitted two elements of background information that together constitute a deeper hypocrisy surrounding military intervention in Libya than you imply. In 2007 the British government sold water cannon to the Libyan regime, in clear breach of the European Union's Code of Conduct on Arms Exports which specifies that export licences should be refused for weapons where there is a "clear risk" they would be used for internal repression. There was little doubt about the use of these water cannon. In facilitating this sale, and others to Libya, the British government clearly showed blatant disregard for the safety of Libyan civilians and their democratic ambitions-in sharp contrast to their current rhetoric.

Moreover, your discussion of the "realpolitik" of the situation left out Western concerns over the direction of the regime's energy policy, exemplified by a 2007 American embassy cable, "...those who dominate Libya's political and economic leadership are pursuing increasingly nationalistic policies in the energy sector that could jeopardise efficient exploitation of Libya's extensive oil and gas reserves." This suggests your realpolitik of choice-based intervention has a deeper hypocrisy and more ulterior motive than inferred by your glib, "You intervene when you can, not to be consistent."

Ben Dyer
Edinburgh

* SIR - You said in your leader on Libya that "to take on Bahrain's rulers would be to endanger [the] alliance" between America's Fifth Fleet and the Bahraini government. That is exactly the point. America should not be in alliances with authoritarian regimes who oppress their own people. Furthermore, you say that "nobody in his right mind would intervene" in Yemen, yet America has already been intervening for years by propping up the Saleh regime.

James Doubek
Washington, DC

Mobile-phone monopolies

SIR - In your leader on the AT&T/T-Mobile merger ("Not so fast, Ma Bell", March 26th) you asked American regulators to look to Europe by "allowing other firms to buy bulk wireless capacity from AT&T and resell it", and by "making local phone and cable firms share their wires." Mandatory unbundling is not needed for infrastructure-based competition here. Moreover, there is a robust market for leasing spectrum in America, led by TracFone, Virgin Mobile and others. Interestingly, the market for leasing spectrum did not get traction in America until the Federal Communications Commission did away with its mandatory resale obligations for wireless carriers.

America does not need a heavy-handed solution to a problem that European regulators arguably created: cable operators in Europe are disinclined to upgrade their own networks to provide internet service in part because the regulator has

provided them with a cheaper entry path as a reseller of telephone lines. If you were focused on maximising consumer welfare-and not the number of unique wireless providers-you would not advocate mandatory unbundling to all problems telecom, including wireless mergers.

Hal J. Singer
Washington, DC

Moving too fast

* SIR - Philip Hammond, MP, claimed Britain will be "left behind" without high speed rail (HS2) (Letters, March 19th). But our existing rail network already delivers faster travel between the capital and the top five cities than France, Germany, Italy or Spain.

HS2 may "transform our economic geography" but not in the way Mr Hammond hopes. HS2 disproportionately benefits the rich, with 47% of long distance rail travel made by the most affluent 20% of people. According to the Department for Transport's (DfT) own figures seven out of 10 jobs created will be in London, not exactly solving the north south divide.

Mr Hammond's proposals are based on two key assumptions: first, rail demand doubling, and second, productivity gains from reducing long distance train journey times. Both are flawed.

The reliability of demand forecasts diminishes the longer their horizon. For DfT's case to stack up they have stretched the forecasting period to 2043. Moreover, half the claimed business benefits come from wrongly assuming that time on trains is unproductive and wasted. Further, while overcrowding undermines the travellers' ability to use the available modern technology productively, DfT's own projections for HS2 actually have more crowding than the more affordable alternative of an incremental upgrade to the West Coast Main Line.

We are a relatively small and densely populated country. Our transport network needs targeted investment for projects that can deliver genuine value for money-including some of the projects cut, shelved or ignored by this government. HS2 is a white elephant which we cannot possibly afford.

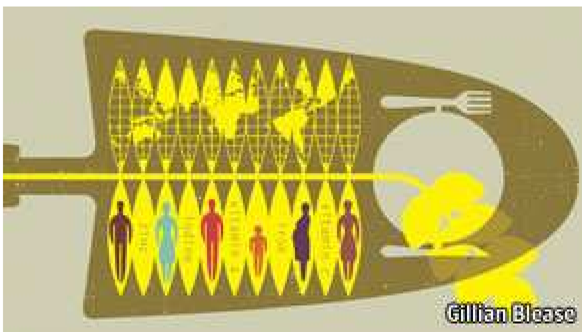
Hilary Wharf
Director
HS2 Action Alliance
Old Amersham, Buckinghamshire

Saving lives

SIR - How much longer, and how many more innocent civilian deaths, will it take before the European Union (EU) realises Italy is both politically and intellectually incapable of dealing successfully with the migrant crisis on its southern shores ("Fear of foreigners", March 5th)? Silvio Berlusconi's latest effort to remedy the emergency situation on the island of Lampedusa-where immigrants and the local population face living conditions often inhumane-has been to buy a holiday home and announce the opening of a casino. I hope the EU finds the will and means to put forward a better plan.

Federico Manaigo
New York

A Mormon approach



SIR - With your frequent interest in Mormons, I thought I'd mention their solution to the nutrition problem in your leader "Quality, not quantity" (March 26th). In the March issue of their magazine, the Church of Jesus Christ of Latter-Day Saints reported on a food initiative which has taught many members to garden, even in small, urban spaces, and with whatever containers they can find. Started in 2009, these people have gone on to teach others in their communities how to increase their nutritional intake-and self-reliance-with just seeds, soil and sunlight. Encouraging a little self-reliance might help to quash the growing Leviathan state, too. No wonder there could never be a Mormon American president.

Lia Collings
New Haven, Connecticut

Tree of knowledge

SIR - Those who read Banyan's column (March 26th) should not find the idea of running a public utility as a business all that odd. As James Tooley's book, "The Beautiful Tree", proves, private providers in another supposedly public monopoly-education-often provide a service far better than that supplied by the public utility, precisely because the service is treated as a business. Shouldn't this apply to other government monopolies?

Christopher Price
Sidcup, Kent

Fingers on buzzers, please

SIR - On "Cash Cab", a budget television quiz show filmed in a taxi, a young couple were asked where a column called Buttonwood appeared. Even after phoning for help, the contestants chose *Newsweek*.

Ted Lindsay
Waterbury, Vermont

* Letter appears online only

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The north Caucasus

From Moscow to Mecca

As this part of Russia's empire frays, fundamentalist Islam takes a stronger hold

ONLY the call to prayer disturbs the morning air in the small Dagestani village of Novosasitli. Dogs do not bark here. All "unclean" animals have been exterminated. Apart from an occasional counter-terrorist raid, life is quiet. People leave their houses unlocked; there has not been a theft for years. A few weeks ago two women were killed-but they were fortune-tellers, or, according to local men, witches.

Most women wear the *hijab.* Alcohol is forbidden, polygamy common. Officials rarely come by, but life in the village is more orderly than in much of the rest of Dagestan. The locals have built a school extension for the growing number of children. Some of the money came as a *zakat*-a mandatory charitable contribution by the better-off to the poor, as required by the Koran. Disputes are settled by imams.

The village is home to Abdurakhim Magomedov, a charismatic spiritual leader of Islamic fundamentalists and the first translator of the Koran into the local language. "Fifteen years ago, only half the people in Novosasitli wanted to live by sharia law. Today everyone in the villages wants it," he says. To achieve this, he adds, Dagestan needs to be free.

Last summer, after a few young women were kidnapped from the village, a community group set up a checkpoint and a night watch. But last month a military truck with ten gunmen came and smashed the checkpoint. If this was an attempt to draw Novosasitli into Russia's orbit, it achieved the opposite, increasing the tension that is tearing apart not only Dagestan but the whole north Caucasus-and, with it, Russia.

Russian rule has always been tenuous there. The territory, which stretches from the Black Sea to the Caspian, was colonised late and was never fully integrated into Russia's empire. Its Muslim peoples enjoyed considerable autonomy, both religious and cultural, until the Bolsheviks took over-whereupon the Caucasus was so modernised and Sovietised that when the Soviet Union fell only Chechnya declared its independence.

Two wars later Chechnya is relatively stable under President Ramzan Kadyrov, a former rebel whose patron is Vladimir Putin, Russia's prime minister. Grozny, Chechnya's once-ruined capital, is now a surreal place boasting several skyscrapers, the largest mosque in Europe, chandelier-lit streets and a Putin Prospect. The president enjoys something of a personality cult: official licence-plates carry his initials, and banners outside schools thank him for "taking care of our future". Yet Chechnya is virtually a separate state, where women must wear headscarves in public and the sale of alcohol is restricted.

Violence has spread from Chechnya to other north Caucasus republics and beyond. Outsiders notice it only when suicide-bombers blow themselves up on the Moscow metro or at the capital's international airport. Yet parts of the north Caucasus are in a state of simmering civil war. Statistics are unreliable, but by the estimates of Memorial, a human-rights organisation, at least 289 Russian soldiers and policemen were killed last year and 551 wounded. About the same number died in 2009-more than Britain has lost in Afghanistan over the past ten years.

On paper, all five predominantly Muslim republics (Dagestan, Chechnya, Ingushetia, Kabardino-Balkaria and Karachaevo-Cherkessia) are part of a single administrative district. On the ground, however, they are separated by borders and checkpoints fortified by sandbags and machineguns. Crossing from one republic to another feels like crossing a national frontier. Taxi-drivers from Dagestan prefer not to venture into Chechnya.

Each of the republics has its own political set-up and is unhappy in its own way, but the root of the problem, say experts, is shared: the de-legitimisation and crumbling of the Russian state and its inability to rule by law. In much of the north Caucasus corruption has eroded the very basis of the state, which performs almost none of its functions and is seen as a source of disorder and violence rather than security.

This also holds true in the rest of Russia, but the north Caucasus has a strong alternative to Russia's political system: Islam, which now unites all the Muslim republics. Whereas the first Chechen war in 1994 was fired by nationalism and separatism, the second war (which echoes still) had a strong religious dimension. The leader of the Islamist rebels, Doku Umarov, has proclaimed himself emir of north Caucasus.

Sufis v Salafis

The failures of the Russian state and the compensating role of Islam are particularly noticeable in Dagestan, the most religious, populous and complex of all the north Caucasian republics. It is double the size of Chechnya and consists of several dozen ethnic groups, most with their own language.

The conflict in Dagestan, however, is not between ethnic groups but between Sufism, a traditional form of Islam which includes local customs and recognises the state, and Salafism, which rejects secular rule and insists that Islam should govern all spheres of life. As Alexei Malashenko, an expert on Islam at the Carnegie Moscow Centre, puts it: "The goal of building a pure Islamist state might be a Utopia, but the struggle for it can be infinite."

Salafism started to spread in Dagestan only after the Soviet collapse, partly as a reaction to the tame, officially recognised local version of Islam. (Raising a vodka shot to Allah used to be standard practice in the Caucasus, says Mr Malashenko.) Tension escalated in the late 1990s when Islamist radicals took over two villages in Dagestan, declaring sharia law and chasing away both local government and the police.

Sufi leaders, who had exercised a virtual monopoly over religious life in Dagestan and enjoyed official backing after the end of Soviet rule, saw the rise of Salafism as a threat. Local officials, many of whom were Sufis, started to put pressure on Salafis, forcing their spiritual leader out of Dagestan. In August and September 1999 Shamil Basayev, the leader of the Chechen fighters, and Amir Khattab, who was born in Saudi Arabia, led two armies into Dagestan, triggering the second Chechen war.

"I told Basayev that Dagestan was not ready for *jihad*, but he did not listen," says Mr Magomedov, the Islamist leader. Indeed, most people in Dagestan resented the intruders. They treated the Russian army as a liberating force, and backed it with local volunteers. Sharia villages were cleared of radicals and the parliament of Dagestan passed a law forbidding extremism and Wahhabism, although it did not define either.

Sufi leaders used Basayev's invasion to see off Salafis as a whole. In effect, the state took sides in a religious war. Wahhabism became synonymous with terrorism. Anyone who practised Salafism was outlawed by the authorities. Torture, disappearances and killings became commonplace. Bearded men from villages such as Novosasitli were driven to Chechnya by federal forces, only to be found dead a few days later. In Novosasitli soldiers publicly tore up copies of the Koran.

"The terror was conducted by the state, and in response [the insurgents] turned to counter-terrorism," says Mr Magomedov, who himself has been arrested and tortured several times. His views are moderate compared with those of radical Salafis, who blow up shops selling alcohol and plant bombs on beaches. He does not condone the bombing at Moscow airport because it does nothing to advance Islam. But he has nothing against attacks on the army or security services, if they are engaged in a war against Islamist fundamentalists.

Although the insurgents use Salafism as their ideology, not all Salafis are rebels. The number of insurgents is estimated by experts at 500 men, plus 600-800 part-timers, across the whole north Caucasus. They draw their main strength not from numbers or even ideology, but from the failures of the Russian state and its injustices. Attacks on policemen and the army in Dagestan have doubled in the past year. They are met with popular indifference, if not approval.

Leaving Friday prayers in Grozny

Salafis have adopted the rhetoric of human rights and built up a mood of political protest, whereas the Sufis have been tainted by their association with a brutal and corrupt state, explains Nadira Isaeva, the 32-year-old Salafi editor of *Chernovik,* an independent newspaper. "The Sufi leaders have no active civil position," she says, "but they control vast financial assets, including tourist companies that sell *haj* tours to Mecca."

The result of all this has been a surge in Salafism. Ten years ago only 10% of people in Novosasitli were Salafis. Today at least 50% are, and almost all the young embrace it. Many of them have studied in Egypt and Syria, and speak Arabic.

A country of strongmen

A new local government appointed by the Kremlin last year tried to ease pressure on the fundamentalists, allowing them to practise Salafism without being arrested for it. Rizvan Kurbanov, the deputy prime minister in charge of security, says his first step was to visit a Salafi mosque and talk to its spiritual leaders, including Mr Magomedov. But the government is worried about giving Salafis equal access to services or allowing them political representation, partly for fear of a backlash from mainstream imams.

Trying to claw back some credibility, the government has cracked down on casinos (which operated openly despite a previous ban) and set up a commission to help former rebels adapt to a peaceful life. It has even talked about an amnesty for those who are willing to lay down their arms. But as Mr Magomedov argues, the people who need an amnesty are those who are accused of extremism simply because of their faith, not their actions.

Examples abound. Last year a group of young bearded Salafi men drove to the mountains for a picnic, stopping on the way in a small town where they were attacked by local Sufists. The police, many of whom are Sufis, joined in, beating them up so brutally that one of them died. "While the authorities are trying to entice former rebels back to normal life, their own subordinates are pushing another 100 into the hands of the rebels," says Ms Isaeva.

Police violence is not restricted to the fight with the Islamists, either. A 14-year-old boy was tortured and crippled by the police after being wrongly accused of stealing a drill. Sapiat Mag Omedova, a petite female lawyer who was thrown out of a police station and ended up with concussion, has been accused of attacking four burly policemen. None of these cases led to police bosses being punished. The police force, which is 20,000 strong, is barely controlled by the Dagestani government.

Mr Kurbanov says it is not in his power to fire a police chief, since both the police and security services answer to Moscow. That is not the only reason. Unlike Chechnya, Dagestan is a state of semi-autonomous districts controlled by local strongmen who are backed by a local police chief and often by an imam. Said Amirov, the wheelchair-bound mayor of Makhachkala, who has survived at least 15 assassination attempts, is considered to be as powerful as the president of the republic. An attempt by the president or his team to cleanse a particular police department is seen as a declaration of war against a powerful vassal.

The balance between regions and clans is fragile. Saigidpasha Umakhanov, the mayor of Khasaviurt, a town close to the Chechen border, is a charismatic strongman who led local armed resistance to Basayev in 1999. "There is no one in the republic who could dislodge me," he boasts. "Only the president of Russia." If he himself were to die, "at least I would die like a real man-not like some bastard with a bowed head." The prospect of death is real enough: a vast computer screen on his desk displays input from multiple CCTV cameras.

As a powerful regional leader, Mr Umakhanov sneers at Magomedsalam Magomedov, who was appointed Dagestan's president without consultation with local strongmen. "He is not an independent player. The oligarchs in Moscow interfere in his decisions." The scrapping of regional elections by Mr Putin in 2004 has eliminated peaceful channels for political competition, only making places like Dagestan more explosive. Mr Umakhanov says the only way out of this paralysis is direct elections. He is not alone in feeling that way. Most Russians want to elect their regional governors. This is precisely what the Kremlin fears, as it would mean the loss of guaranteed political support from puppets in the regions.

Unable to offer any unifying idea or the rule of law, the Kremlin tries to compensate with injections of money. Corruption is so rampant that, at best, the funds get siphoned off; at worst, they are used for terrorism. The Dagestani economy is 80% subsidised by the Russian government, but there is little to show for it apart from a few seaside villas and lavish weddings for the rich-at which guests may sport gold-plated revolvers bulging in their jeans.

As for the rest of the Dagestanis, they are left with potholed roads, derelict farms and factories, a polluted sea and a grim landscape dotted with houses half-built or half-ruined. Free education and health care are myths. The rate of TB is one of the highest in Russia. Jobs, exam grades and university diplomas are all for sale.

In this region, Russian identity has been hollowed out. As one young man puts it, "The only thing that makes me Russian is a note in my passport. I can't get a job in Moscow or even a mortgage, because I come from Dagestan." Radicalisation of young people is increasing, both in the north Caucasus and in Moscow. The main slogan of the ultra-nationalists who rioted in Moscow recently was "Fuck the Caucasus". Radicals in the Caucasus feel the same way about the Russian state.

Mr Putin came to power pledging to fight the centrifugal forces in Russia. After more than a decade of his rule, the risk of disintegration is greater than ever. The Kremlin has no strategy to prevent it. And the biggest threat to Russia's territorial integrity comes not from Dagestan or any other part of the north Caucasus, but from the Russian state itself. As a young man in Novosasitli remarks: "There is no future for Dagestan inside Russia now because Russia itself is fraying at the seams."

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Ingushetia

The peaceful exception

A new president has worked wonders

JUST over two years ago Ingushetia, the smallest and once the most peaceful republic in the north Caucasus, was in a state of civil war. Armed rebels were gaining strength and sympathy; traffic cops vanished at nightfall, fearing for their lives; the security services regularly kidnapped civilians and often executed them on the spot. When the owner of an influential opposition website, Magomed Yevloyev, was abducted and shot dead by an interior minister's guard inside the police car, Ingushetia started to boil over.

On October 30th 2008 Dmitry Medvedev, in one of the best decisions of his presidency, decided to remove Murat Zyazikov, Ingushetia's ineffective president and a former KGB general. People danced in the streets when he was fired. His replacement was a little known military man called Yunus-Bek Yevkurov, who had fought in Chechnya and led Russia's peacekeepers in Kosovo in 1999.

Mr Yevkurov visited Mr Yevloyev's father, offered to work with the political opposition and appealed to ordinary people to help stabilise the republic. He also asked the relatives of rebels to help bring them back, promising lawful treatment in return, rather than holding the families hostage for them.

Two years on, Ingushetia seems much calmer. Attacks on policemen have fallen by about 40% and abductions by nearly 80%, according to Memorial, a human-rights group. In the first two months of this year there were no attacks on local policemen. Ingushetia is still not normal, but Mr Yevkurov has restored some semblance of Russian governance there.

He himself says this is no PR exercise. He is just trying to win back people's trust. As a result, "80% of operational information comes not from our agents, but from the population." It was partly this intelligence that led on March 28th to a rare precision ground and air strike on a terrorist training camp in Ingushetia that killed 17 guerrilla fighters and led to the arrest of two men allegedly involved in the bombing of Moscow's Domodedovo airport in January.

Mr Yevkurov's personal courage is also a factor: he miraculously escaped death after being blown up in a huge explosion shortly after his appointment. Two months later he was back in his office, his policies unchanged. "The first lesson that can be drawn from our experience is that the use of force alone gives no positive results. In fact, it gives the opposite effect. Prevention and persuasion are more effective than coercion."

There is a limit to what Mr Yevkurov can do. He does not formally control the local police, and he has little power over the federal security services, which continue to abduct and torture people. He does his best. After one recent incident he called in the parents of a victim along with the local heads of the police and security services. "Do you realise what you're doing?" he reproached the security men as TV cameras rolled. "You're creating future terrorists."

Mr Yevkurov seems little interested in Kremlin politics and still serves Mr Medvedev-not out of political expediency, but because Mr Medvedev is, by law, Russia's commander-in-chief. Almost uniquely in his region, Mr Yevkurov is committed to the Russian state.

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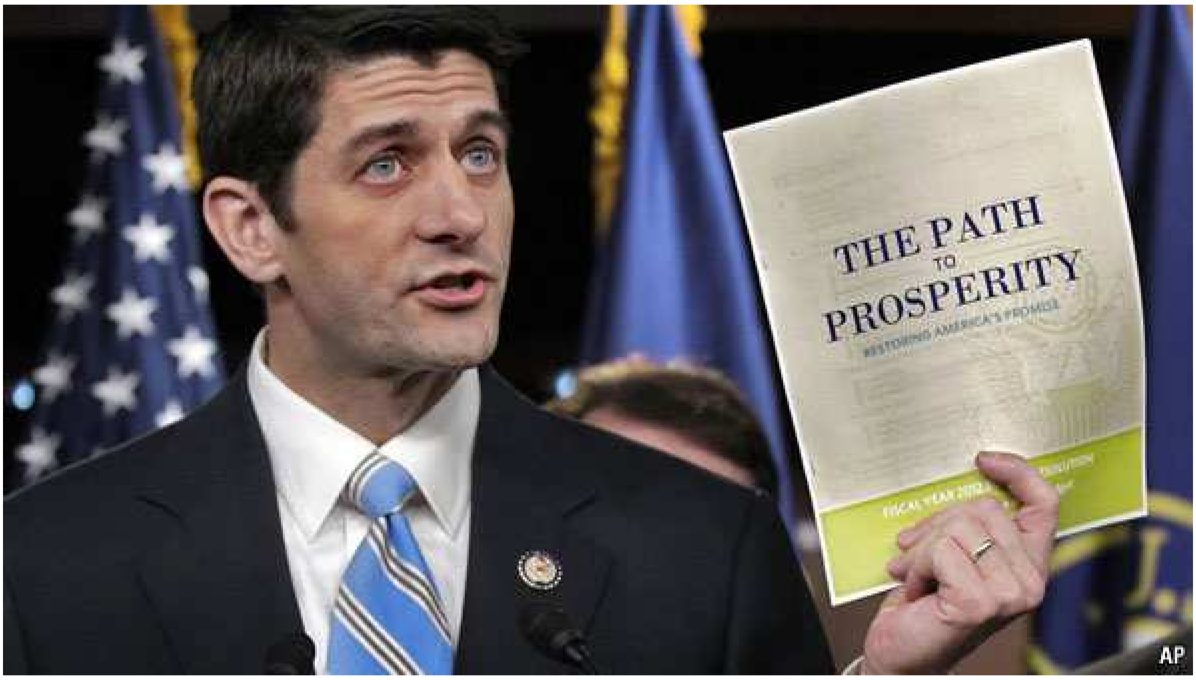
The budget

The real fight begins

As a government shutdown looms, an attempt to grapple with America's long-term deficit problems is at last under way

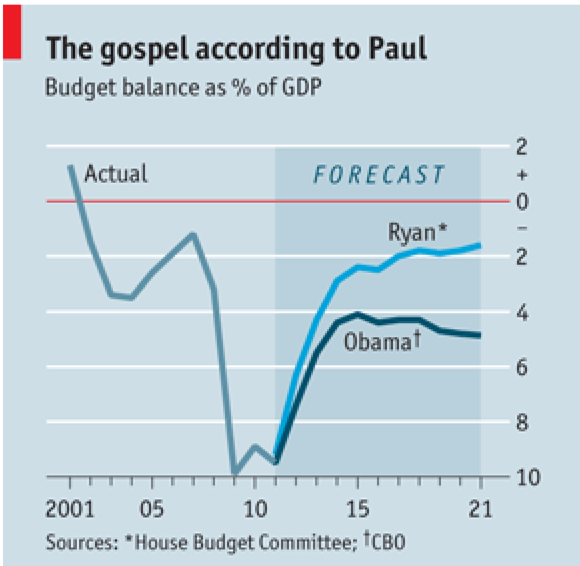


CONGRESS may not be very good at passing budgets, but that is not for lack of discussion of them. This week it was consumed by three overlapping budgetary debates: about a "continuing resolution" to keep the government up and running for the rest of this fiscal year, about next year's budget and about whether to raise the legal limit on the federal government's debt. Lawmakers have just under six months to sort out next year's budget, and under six weeks before America's debt reaches the current ceiling. But without a new resolution, the government's authority to spend will expire at midnight on April 8th, forcing much of it to shut up shop. As *The Economist* went to press, the Republicans who run the House of Representatives, the Democrats who run the Senate and Barack Obama himself were holding last-ditch talks, but also warning their staffs to prepare for a shutdown.

This cliffhanger is the culmination of months of fiscal bickering, punctuated by stopgap continuing resolutions. Since February the Republicans have been holding out for $61 billion in cuts to this year's budget, including assaults on favoured Democratic causes such as public broadcasting (see article). The Democrats argue that their proposal is too extreme, too political, and too narrowly focused. The previous two continuing resolutions, which had lifespans of two and three weeks respectively, were intended to allow the two sides enough time to hammer out a compromise for the rest of the year.

Predictably, much of that time was instead spent grandstanding. The House recently passed a bill stating that if the Senate did not pass a budget of its own, the House's $61 billion cut, which the Senate had already rejected, should become law anyway. Needless to say, the Senate did not embrace this idea. House Republicans then took to protesting on the Senate steps each day, calling on the Democrats' leader in that chamber, Harry Reid, to resign. Meanwhile, a group of tea-party activists threatened dire vengeance on any Republicans who voted for anything less than the full $61 billion of cuts. A bipartisan group of 64 of the 100 senators sent Mr Obama a letter asking him to find a solution to their problems. Mr Obama called Congress's failure to pass a budget "inexcusable" and said that he would summon the leaders of its two chambers to the White House every day for talks until a deal was done.

A man with a plan



It was into this maelstrom that Paul Ryan, the Republican who heads the House Budget Committee, released his proposed budget for next year on April 5th. He claimed it would slash spending by $6.2 trillion over the next ten years and the projected deficit by $4.4 trillion relative to the proposal the president unveiled in February (see chart). All of this would place America's finances on a sounder path-though critics note that Mr Ryan's figures are based on some highly implausible assumptions, such as a prompt collapse in the unemployment rate and a surge in growth thanks to lower taxes. Whereas under the president's plan debt would continue to rise steadily towards 100% of GDP, Mr Ryan's would supposedly see it peak just shy of 75% of GDP in 2013 and decline thereafter.

The Republicans claim to be able to achieve this feat by taking an axe to two of the biggest and most politically sensitive items in the budget: Medicare, government subsidised health-care for the elderly, and Medicaid, its equivalent for the poor. (There are limits to the number of live rails Mr Ryan is willing to grasp at once: his budget leaves intact the biggest single item in the budget, Social Security, the state pension scheme). These three "entitlements" already account for over 40% of government spending and are growing so fast that they will theoretically consume all government revenue within a few decades.

However, the Republican proposal does nothing actually to cut the cost of health care. Instead, it transfers the burden to the states, in the case of Medicaid, and to the elderly themselves, in the case of Medicare. Medicaid would be transformed into a "block grant" to the states, allowing them much more discretion over how the money is spent. But the size of each state's handout would be tied not to runaway medical inflation, but to the much more sedate general price index. This would trim the federal government's projected outlay by a third within a decade and half within two, obliging unfortunate state governments either to cough up far more themselves or to reduce coverage.

By the same token, under the Republicans' plans for Medicare, the federal government would subsidise private health insurance for the elderly, instead of itself paying most of the cost of treating them directly to hospitals and doctors. Mr Ryan claims that the resulting competition among insurance firms would lower the overall cost of treatment. But the non-partisan Congressional Budget Office disagrees, arguing that private coverage tends to cost more than public, and that both would continue to suffer from cantering inflation. This would have a doubly pernicious effect for patients: not only would the overall cost of treatment rise, but so would the proportion of it they have to pay.

Such measures would be devastatingly unpopular. In a poll last month by the Pew Research Centre, two-thirds of respondents opposed any changes to Medicare and Social Security. Republicans themselves made hay at the last election with the much more modest cuts the Democrats' health-care reforms made to Medicare (remember "death panels"?). Democrats are returning the favour by depicting the Republican plan as the complete unravelling of America's Great Society safety net. That is not so far from the mark: two-thirds of the proposed savings would come from programmes to help the poor, according to the Centre on Budget and Policy Priorities, a think-tank. Among the casualties of Mr Ryan's axe would be Mr Obama's health reforms, aimed at helping the uninsured get health cover.

Mr Ryan's plan also ignores the received wisdom in Washington that any grand deficit-reduction package will have to include bitter medicine for both parties, in the form of cuts to the entitlements particularly cherished by Democrats and revenue-raising measures that are anathema to Republicans. Instead, it would use the savings it would garner by eliminating many of the loopholes and exemptions in America's tax code to pay for big tax cuts, not deficit reduction. These will mainly help the better-off.

Indeed, the Ryan budget contains many affronts to Democrats, from repealing their prized health-care reform to instituting over the long run cuts to discretionary spending far deeper than those the Democrats are so doggedly resisting in the row about this year's budget. So it will never get through the Senate, and if it did, it would be vetoed by Mr Obama.

Not all of Congress, however, has declared total partisan war. Three Democrats and three Republicans in the Senate, nicknamed the "Gang of Six", continue to discuss a budget deal based on the magic formula of cutting spending on entitlements as well as discretionary items while raising revenue in the guise of tax reform. The letter the 64 senators sent to Mr Obama explicitly endorsed this approach, despite the flak the gang's Republicans have received for so much as mentioning the idea of raising government revenue.

Alas, there is no guarantee that their efforts will bear fruit. The rancour of the debate about this year's budget has done little to calm tempers in Congress. Moreover, there are more nerve-racking deadlines to come. By May 16th at the latest, the Treasury says, America's debt will have reached the limit set on it by Congress. Given the impossibility of erasing the deficit by then, the ceiling will have to be lifted. But many Republicans have said they will not do so unless Democrats endorse cuts of a much greater magnitude than the ones they were resisting this week. The fiscal melodrama has a few more weeks to run before its electrifying final act.

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Jobs figures

A gentle tailwind

Employment is moving, ever so slowly, in Barack Obama's direction

ON APRIL 4th Barack Obama announced, to no one's surprise, that he would seek a second term in 2012. The timing was auspicious. Three days earlier the job market, a key determinant of his re-election chances, took a turn for the better. On that day the government reported that non-farm payrolls rose a hefty 216,000, or 0.2%, in March, led by manufacturers, hotels, restaurants and temporary staffing agencies. Strapped state and local governments trimmed their payrolls for the fifth month in a row. But private payrolls, a better indicator of the economy's animal spirits, have posted their biggest two-month advance since 2006, at 470,000.

Meanwhile, the unemployment rate fell to 8.8% from 8.9%. It has now plummeted a full percentage point in four months, a feat unmatched since early 1984 and a fact Mr Obama made sure to point out. No doubt he hopes it augurs for him what it did for Ronald Reagan in 1984. Like Mr Obama, Mr Reagan endured a savage recession early in his first term that crushed his approval ratings and cost his party seats in the mid-terms. But by 1984 job creation was on a roll and Mr Reagan romped to re-election.

A closer look at the data, however, illustrates why the economy is less of a tailwind for Mr Obama than it was for the Gipper. Unemployment is falling far faster than the health of the economy can explain. In the four months during which unemployment dropped a percentage point in 1983-84, non-farm payrolls leapt by 1.6m. In the last four months they have advanced a mere 630,000. The survey of households that yields the unemployment tally shows a much bigger gain in employment than the survey of employer payrolls, but still less than in 1984.

The reason is that unemployment is falling not just because of job creation but because the pool of people who want to work, the labour force, is not growing. Many people seem to have dropped out of the labour force for good, perhaps to retire, collect disability, or return to education. And their ranks could grow. Typically, those who have been unemployed the longest are the most likely to drop out of the job hunt. But Alan Krueger, an economist at Princeton, says that has changed.

Since 2007, he has found, the share of the long-term unemployed that drop out of the labour force has fallen steadily. He attributes this in part to the extension of unemployment benefit to 99 weeks from the normal 26 weeks. People who might have stopped looking for work keep at it to qualify for benefits. When the extended benefits expire at the end of this year, many of the long-term unemployed may simply drop out of the labour force. Meanwhile, those with the shortest spells of unemployment are now more likely to drop out, perhaps to return to college.

As for those lucky enough to have jobs, pay is stagnating. Hourly earnings rose just 1.7% in the year to March, a paltry raise that will soon be eaten up by the rising cost of petrol and grocery bills. This is ominous for Mr Obama, because it is the growth in overall income that seems most closely to predict a president's re-election chances. That means pay as well as payrolls. His re-election is far from in the bag.

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California's Republicans

Dead, or just resting?

The threat of demography

THE Republican Party in California is "already dead. We're talking about whether it can be revived," says Allan Hoffenblum, who was a Republican official and consultant for four decades and now produces non-partisan electoral analysis. He is among a growing number of mainly old-fashioned Republicans who think that their party has got on the wrong side of a huge demographic trend, the growth of Latinos and Asians.

This shift forms the backdrop as Republicans and Democrats play chicken with the state budget in Sacramento, rather as their national counterparts are doing with the federal budget in Washington, DC. In both places, all involved are hoping the other side gets more blame when budget negotiations fail.

But Washington's Republicans are still testing the power they won in November. Sacramento's, by contrast, are fighting for survival after a season of epic reverses. All eight statewide offices went to Democrats in the last election. And after falling for decades, the percentage of Californian voters who are registered Republican is now less than 31%, far below the 44% who are Democrats and not far above the 20% who decline to state a preference.

Duf Sundheim, chairman of California's Republican Party between 2003 and 2006, says that the main trend behind these numbers is the disenchantment with both parties, reflected in the rise of unaffiliated voters. But the damage has not been symmetrical. For although the Democrats have their crazies-largely of the green or unionised sort-they have also picked up most of the rising Latino and Asian political talent. And they tend to be moderate, or even conservative. This may help explain why independent voters in California lean Democratic in elections.

Mr Hoffenblum minces no words about what caused this loss for Republicans. It is the "shrillness" of their rhetoric against illegal immigrants, which has "totally turned off Latinos and Asians in this state," even those who are citizens or legal immigrants. In effect, he says, the Republicans have made themselves "the white man's party" and "alienated the fastest growing voting block."

Ahead of the nation in the demographic shift from white to brown, California may thus be a warning for Republicans elsewhere. Already, places like Orange County that used to be very white and reliably Republican are becoming less so as they grow more ethnically diverse. The biggest change is occurring in inland regions such as the Central Valley. After the 2000 census, when both parties shamelessly gerrymandered legislative districts, the Republicans carved out several safe, white rural districts. Since then, the population has grown fast in these areas, but that growth has been among Latinos. So Republicans might actually lose from the trends that have favoured their regions.

So far, they show no sign of acknowledging this. At a recent party convention, the main topic was not how to reach out to independents or Latinos but how to get around new rules for non-partisan primaries that might favour moderates, and how to discipline "traitors" who dared negotiate with the Democratic governor. Mr Sundheim says it's time to get the board in the water in time for the wave.

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National Public Radio

Radio interference

Republicans want to cut off funding for NPR

The air war

MANY of the programmes on America's largest public radio network begin with a pleasant voice informing listeners that "Support for NPR comes from" a certain firm or foundation or "listeners like you". These kind backers rarely quibble over the network's content. But support for NPR also comes from a less quiescent source: the federal government. And in less pleasant tones Republicans on Capitol Hill have accused the broadcaster of liberal bias and threatened to cut its funding.

While it has long been standard Republican practice to attack NPR, two recent incidents have inflamed opinion on the right. Last October the network fired Juan Williams, a news analyst, for remarks about Islam that he made on a Fox News programme. Mr Williams is also a paid commentator for Fox, and some thought it was less his comments that disturbed the network's top brass than his association with the conservative news channel. Those suspicions were reinforced earlier this year, when a video appeared to show the network's top fund-raiser making disparaging comments about Republicans. Though the tape was deceptively edited, the fallout cost NPR's president her job.

On-air bias is even tougher to prove and difficult to define. An analysis during George W. Bush's presidency measured bias by support for administration policies, a questionable method. Other studies have shown that the network marginally prefers conservative guests. More recently the Pew Research Centre found that NPR's coverage of Barack Obama's first 100 days in office was less fawning than most other broadcasters'.

The real problem for NPR may be its listeners. According to Pew, the network's audience is 40% Democratic and only 14% Republican. So even if NPR is not left-leaning, it may have the appearance of being so, a perception that is reinforced by the way many Democrats vehemently defend the network.

The Republican effort to cut spending on NPR, part of the 2011 budget row, is unlikely to pass into law. Even if it did, it would not cut the network's budget by very much. NPR gets only 2% of its revenue from federal grants. A much larger chunk of its income comes from the programme fees paid by local public stations, which also receive a bit of government support. Republicans have tried to block those payments too, though local stations could still continue to buy NPR content using private money. But some are suggesting that NPR would be better off cutting ties with Washington in order to avoid future dust-ups.

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Small price to pay

As the number of exonerees grows, so does the question of compensation

Come out, we're sorry

IN OCTOBER 2010 Anthony Graves was released from death row in Texas. He had spent nearly 20 years in prison, having been charged, in 1992, with helping another man murder a family of six. That man had sworn that Mr Graves was his accomplice, but later had a change of heart. "I lied on him in court," he said just before he was executed in 2000. That sent the wheels of justice turning, albeit slowly and creakily. In 2006 a circuit court overturned the conviction. Prosecutors began to reassemble the case, and realised that without the false statement, there essentially was none. The district attorney filed a motion to dismiss the charges. On that basis an innocent man was finally exonerated.

This sad story raises a number of troubling issues. Among them is the fact that Mr Graves has been denied any compensation from the state for his long years in prison. Under the state's 2009 Timothy Cole Compensation Act-an older law which was updated and renamed for another exoneree, who died in prison while serving 25 years for a rape that another inmate subsequently confessed to having committed-people who are wrongfully committed of crimes may collect $80,000 from the state for each year they were imprisoned.

More than half of America's states have similar laws, and they are being put to use. It is good news, albeit troubling, that hundreds of people have been exonerated in America in the past 20 years. The New York-based Innocence Project, which provides free legal representation to people who it hopes can be exculpated on the basis of DNA evidence, counts no fewer than 268 such exonerations since 1989. That figure partly reflects improved forensic technology, and does not include people such as Mr Graves, who are the victims of perjury or procedural errors and misconduct.

Financial compensation may be only a small response after the gross injustice that exonerees have suffered. But it can help the wrongly accused to rebuild their shattered lives and is a lot better than nothing, which is what some exonerees in some cases receive. Another egregious example comes from Louisiana. In 1985 a man named John Thompson was convicted of murder after prosecutors hid a blood test that would have cleared him of a prior conviction, for armed robbery. That conviction contributed to the murder charge, because in the light of it, Mr Thompson was advised not to testify in court; and, eventually, that led to a capital sentence. The concealed blood test led to another deathbed

confession-this time from one of the prosecutors involved. After the confession came to light, both of the convictions were overturned.

Louisiana state law provides a measly compensation of $15,000 a year, up to a maximum of $150,000. Mr Thompson, who had spent 14 years on death row and was within weeks of being executed, sued the district-attorney. In addition to being unjust, it is illegal for prosecutors to withhold exculpatory evidence; they are obligated to turn it over to the defence. A circuit court awarded Mr Thompson $14m, but last month the Louisiana Supreme Court overturned that decision. The majority opinion acknowledged the violation, but held that there was no proof of "deliberate indifference" to civil rights. That is, at best, a technicality.

As for Mr Graves, the holdup in his case rests on another technicality: the state comptroller's office, which controls the money, noted that Mr Graves had not actually been declared innocent. That, of course, reflects the peculiarities of the case. The charges against Mr Graves were dismissed, per the order, because there was "no credible evidence" against him. The district-attorney decided that since he was obviously innocent, there was no need to go to the trouble of asking a court about it. Last month, Mr Graves sued-not directly to get the money, but to be officially declared innocent so he can be eligible for it. His lawsuit specifies that he "holds no grudge" against the state, and adds that he believes the comptroller "made an honest error" in denying his claim. If only all of America's states could manage to be so fair-minded.

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Politics in Maine

Easy on the tea

Trouble with the governor

MAINE'S politicians are mostly a polite bunch: think of George Mitchell and Edmund Muskie or the state's two current senators, Olympia Snowe and Susan Collins, both of them Republicans respected for their moderate stances. Paul LePage, Maine's governor for the past three months, is decidedly not cut from the same cloth as these worthies. During his election campaign, he said he would tell Barack Obama to "go to hell". And since becoming governor he has suggested that the NAACP, a black advocacy group, could "kiss my butt" and dismissed the dangers of a chemical used in plastic, saying, at worst, "some women may have little beards."

"Idiots" is how he characteristically described opponents of his decision last month to remove a mural depicting the history of the state's labour movement from the state Department of Labour's headquarters. Mr LePage claims the 11-panel mural, which includes scenes of child labourers and the famous Rosie the Riveter, sent an anti-business message. The decision has caused a lot of trouble he could have avoided. This week a group of artists filed a lawsuit challenging his decision as a violation of the first amendment.

Republicans are not happy with their governor either. Although he admitted to his party that the timing of the removal was not right, eight Republican state senators recently co-wrote an newspaper article about their unhappiness with him. They would rather he concentrated on what he was elected to do, passing a balanced budget and lowering taxes. Charles Webster, head of the state party, called the mural's removal a "distraction". And now the federal government is involved. Two-thirds of the $60,000 used to commission the mural came from the federal Department of Labour, who are demanding the mural be rehung. If Mr LePage refuses, Maine will have to repay the federal government the current market value of the piece, which Robert Shetterly, one of the lawsuit's plaintiffs, jokingly speculates has increased as much as tenfold.

Mr LePage should be worried about alienating his more moderate supporters. He only narrowly won a three-way race last November. As a bumper sticker on a Prius parked outside Maine's Department of Labour noted, 61% of Maine did not vote for their governor.

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Earthquake preparations

The curse of complacency

Americans are neither shaken nor stirred

SOONER or later, America will suffer an earthquake as devastating as the one that has wreaked havoc on northern Japan. It could happen next week, next year or next century; it has happened on numerous occasions in the past, and will happen again. The best that can be done is to prepare for the inevitable, adopting measures that will help emergency teams rescue the victims and allow the recovery to proceed as rapidly as possible. But the chaos that ensued in the aftermath of Hurricane Katrina shows how unprepared America can be for disasters.

Earthquakes about as powerful as the magnitude 9.0 quake that shattered the coastal towns of northern Japan before drowning them with a 30ft tsunami have struck along the Oregon coast at least seven times during the past 3,500 years. The last time was on January 26th 1700. The precise date is known thanks to records kept by Japanese officials, who witnessed the devastation caused by the subsequent tsunami when it inundated their shores.

America's next mega-disaster is likely to be a smaller earthquake, but one much closer to a major conurbation than has occurred of late. That could happen almost anywhere-from Alaska and California in the west to Massachusetts, Missouri and South Carolina to the east. All have suffered considerable death tolls and damage as a result of large earthquakes in the past.

The problem today is that the last cataclysmic quake to strike a populated area in America-the magnitude 7.9 shock that destroyed much of San Francisco in 1906, killing some 3,000 people-is too long ago to have much of an impact on current thinking. The magnitude 9.2 quake and tsunami that struck Prince William Sound, Alaska, in 1964-the second largest seismic event to be recorded anywhere at that time-mercifully claimed only 131 lives, since so few people lived there.

Even the magnitude 6.7 Northridge earthquake that ripped through the Los Angeles suburbs in 1994, doing about $20 billion-worth of damage, left fewer than 60 people dead. The recent Japanese disaster is expected to have killed more than 27,000 and caused up to $300 billion-worth of damage.

Geologists in America fear that the lack of serious shaking in recent times has lulled those living in seismically active parts of the country into believing that their local building codes and disaster preparations are adequate. A computer simulation, called "ShakeOut", undertaken by the United States Geological Survey in 2008-involving over 5,000 emergency responders and 5.5m citizens-indicated that a magnitude 7.8 earthquake unleashed on the lower end of the San

Andreas Fault, some 40 miles east of Los Angeles, would cause 1,800 deaths, $113 billion in damage and nearly $70 billion in business interruption.

Partly in response to ShakeOut, the National Earthquake Hazards Reduction Programme (set up by Congress in 1977 to mitigate the effects of earthquakes) commissioned a body of scientists in 2008 to draw up a 20-year action plan for reducing the hazard of earthquakes in America. The National Research Council (NRC), which was charged with developing the plan, reported last week on the 18 tasks it reckons are crucial if the country's earthquake resilience is to be improved. Implementing the plan is expected to cost $6.8 billion over 20 years. That seems cheap. According to the California Emergency Management Agency, every dollar spent on preparation saves four dollars on reconstruction after a disaster.

One of the NRC's most important (and certainly most expensive) recommendations is a national earthquake warning system like the one Japan installed in 2007. Thanks to its network of 1,000 seismic stations around the country, Japanese authorities had nearly a minute to halt bullet trains in northern Japan (none was derailed) and warn local employers to stop lifts and switch off dangerous machinery. The seismographs detect the burst of "P-waves" emitted by an earthquake that travel at twice the speed of the more destructive "S-waves", giving valuable seconds of warning depending on the distance from the epicentre.

But seismologists fear a national earthquake warning system is unlikely to be built in America because of complacency and the spending squeeze. Finding just the $50m needed to complete California's pilot network is proving hard enough-and Californians need no reminding how valuable such a system would be. Unlike the wary Japanese, when it comes to earthquake mitigation the majority of Americans remain unshaken and unstirred.

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Lexington

The fiscal purists go mad

A quarrel over ethanol lays bare Republican divisions on tax

IT IS bad enough that Republicans and Democrats are so divided on how much to spend and tax. But if you want to feel really gloomy about America's ability to tackle its deficit, consider the ideological, almost theological, arguments about tax that are taking place within the Republican camp itself. In the past few weeks these have been revealed in all their dreadful clarity by an esoteric debate about the tax break for ethanol.

To balance the budget you can spend less or tax more. The Republicans are allergic to tax increases, and since their capture of the House of Representatives in November's mid-term elections have succeeded in focusing the debate almost exclusively on what should be cut. One bit of spending that has caught the eye of Tom Coburn, the Republican senator for Oklahoma, is the $6 billion a year the government doles out in tax breaks to refiners who blend ethanol into their petrol. By general consent, this is not money well spent. Farmers may relish receiving taxpayers' money to grow the corn that goes into ethanol, but corn-based ethanol is not the green fuel it is cracked up to be. Almost as much energy is used to make it as when it is burned. Here, you would think, is one subsidy that any Republican fiscal conservative in his right mind would want to get rid of.

Senator Coburn, being in his right mind, has proposed an amendment that would scrap the subsidy. As it happens, he was a member of the bipartisan Bowles-Simpson deficit-reduction commission set up last year by Barack Obama. The president has paid scant attention to the commission's report since it was published in December. But Senator Coburn continues to tell anyone who will listen that nothing is more urgent for America than to reduce its Himalaya of debt before the bond markets take fright and slap on punitive rates of interest before they lend more. He is one of six senators, three from each party, working discreetly behind the scenes in search of a compromise. As for ethanol, the senator is under no illusion that scrapping the subsidy is a solution to the deficit problem. It is a drop in the ocean. But, hell, the tax credit is a waste of public money and should be scrapped. Who on the tax-cutting side of the debate could argue with that?

Grover Norquist: that's who. And on the face of it this is peculiar. Mr Norquist is the pugnacious founder of Americans for Tax Reform (ATR), a mighty pressure group that deems taxes no less of an evil than alcohol was in the eyes of the 19th-century temperance movements. He and the ATR put fierce pressure on politicians at every level of government to sign the "taxpayer protection pledge", a promise to oppose any increase in the marginal tax rate on individuals and firms. No fewer than 237 House members and 41 senators have done so. The aim of the association is to reduce the power of government by making taxes "simpler, flatter, more visible, and lower than they are today". You might think such an organisation would jump at the chance to eliminate a distortion as gratuitous as the ethanol subsidy.

You might think so, but you would be wrong. That is because, in Mr Norquist's book, taking away a tax break has an iniquitous corollary. Ending the ethanol credit will increase federal tax revenues and so make available to the government money that can be spent on other things. And since government spending is the underlying evil on which Mr Norquist believes all policy should focus, the tax break for ethanol (and other such credits, loopholes and distortions) must not be eliminated unless the extra revenue they will put in federal coffers is taken out again in the form of an equal tax cut somewhere else. After all, he told the *Washington Post* last month, "The goal is to reduce the size and scope of government spending, not to focus on the deficit."

Herein lies the great difference between the philosophies of Mr Norquist and Senator Coburn. The former is a sworn enemy of government spending. The latter would like to cut taxes and shrink the state, but cares most about the need to cut the deficit. He thinks the Norquist position is dotty. "By opposing my amendment", he told the ATR, "you are defending wasteful spending and a de facto tax increase on every American. Ethanol subsidies are a spending programme placed in the tax code that increases the burden of government, keeps tax rates artificially high, and forces consumers to pay more for fuel and energy."

Tax reductio ad absurdum

Senator Coburn has the better of this argument. Even the *Wall Street Journal*, one of Mr Norquist's admirers, said in an editorial this week that the compelling taxpayer interest in this case is to end a policy that is "driving up the cost of food and fuel with no benefit for the environment or American energy security."

But the significance of the quarrel goes well beyond ethanol. Bruce Bartlett, a former adviser to Ronald Reagan, laments the fact that Senator Coburn is one of too few Republicans who understand the need for higher revenues and not just spending cuts. To tame the deficit by cuts alone would require such deep ones that the Republicans could not hope to pass them without winning back the White House and a filibuster-proof majority of fiscal hawks in the Senate. And it might not happen even in that impossible event. When the Republicans last had full control, in the 2000s, they cut nothing except taxes, and added to entitlements.

At its best America is open-minded and pragmatic. These qualities will be needed in abundance if its political class is to rescue it from its burden of debt. Some mix of spending cuts and tax rises is inevitable. So it is encouraging that a conservative such as Senator Coburn is willing to work with Democrats and take on the fiscal fundamentalists of the ATR. Then again, the senator is not seeking re-election. Very few other Republicans in the Senate, to say nothing of the tea-party-beholden freshmen in the House, will find pragmatism on taxes so easy to contemplate.

Regional integration in Latin America

The Pacific players go to market

An incipient new club proclaims that Brazil is not South America's only game

PaCifiCa rising
Selected economic data, 2010

	Chile	Colombia	Peru
GDP, $bn	199	283	154
Population, m	17	46	30
GDP growth, % Annual average 2006-10	3.3	4.6	7.2
Exports*, % of total to Asia	45	7	26
Stockmarkets†			
Market capitalisation, $bn	311	201	98
Listed companies, number	231	84	247

Sources: IMF; Thomson Reuters; World Federation of Exchanges
*2009
†End February 2011

IF ALL goes well, next month traders on the stockmarkets of Chile, Colombia and Peru will be able seamlessly to buy and sell the shares of companies listed on the other two. Born after two years of negotiation, the Integrated Latin American Market (MILA, in Spanish) with a market capitalisation of over $600 billion, will instantly become Latin America's second-biggest *bolsa*, after Brazil's BM&FBovespa. And MILA, in turn, is the most tangible sign of a growing closeness between three fast-growing, medium-sized South American countries with Pacific coastlines that now aspire to form a common market.

The past two decades have seen endless talk of regional integration in Latin America, but rather less action. In the 1990s Brazil and Argentina forged Mercosur, a four-country group. The five-country Andean Pact became the Andean Community. Both were based on a vision of (fairly) free trade and a quest to expand markets. But a decade ago, a crop of left-wing governments came to power in much of the region with a different view. Brazil ended talks for a 34-country Free-Trade Area of the Americas involving the United States, and instead sponsored the South American Union (UNASUL in Portuguese) as a forum for political co-operation. Meanwhile Hugo Chavez, Venezuela's president, formed ALBA, an anti-American block, with Cuba and other allies.

The incipient new group-let's call it PaCifiCa-marks a return to the vision of the 1990s, but with a twist. The idea was launched by Peru's president, Alan Garcia, last year. It is based on the growing affinity between a set of countries all betting on market economies, foreign investment and trade with Asia to achieve development. At Chile's initiative, the original three are being joined by Mexico at a series of meetings over the next few months aimed at drawing up a plan for what Mr Garcia calls "an area of deep integration".

All these countries have free-trade agreements with the others (except Mexico and Peru, which are now negotiating one). Chile, Peru and Mexico are members of the Asia-Pacific Economic Co-operation organisation (APEC), a talking shop of 21 countries which Colombia wants to join. Chile and Peru have trade agreements with China. The idea is that Chile, Colombia and Peru, perhaps with Mexico, should now free up services and the movement of capital and people, says Jose Antonio Garcia Belaunde, Peru's foreign minister.

In this, the politicians are rushing to catch up with the private sector. Chilean retailers have invested heavily in Peru and are looking at Colombia. Chile's LAN airline now has its main South American hub in Lima. Peru's Brescia family own Chile's biggest cement firm. Colombia's ISA manages much of Peru's electricity grid. Juan Manuel Santos, Colombia's president, sees hooking up electricity grids from Mexico to Chile as the first fruit of the integration scheme (there are plans to build the only missing links, between Peru and Chile and Colombia and Panama).

Officials are particularly hopeful about the possibility of bundling together products from all three countries to achieve the scale that importers in China look for. Maria Angela Holguin, Colombia's foreign minister says that her government is already opening joint commercial offices with Chile in Asia, and is seeking to do the same with Peru.

If PaCifiCa does gel, it might form an alternative pole of attraction to Brazil. Officials in the three countries say that Brazil has shown more interest in becoming a global power than in deepening South American integration. The MILA stockmarket might also attract foreign investors keen for an alternative to Brazil's overbought markets-though in the short-term that might make life harder for policymakers who are trying to prevent their currencies from becoming too strong.

But there are obstacles to a thriving common market. The first is that relations between Peru and Chile are dogged by the bitter legacy of the war of 1879-83, in which Chile annexed part of its neighbour's territory. The countries' maritime boundary is the subject of a claim by Peru at the International Court of Justice. Some Peruvian politicians oppose selling natural gas or electricity to energy-short Chile.

Mr Garcia Belaunde says that Peru's faster economic growth, which has cut the wealth gap with Chile, and growing national self-esteem have helped to reduce nationalist feeling. But this could revive if Ollanta Humala, a populist former army officer, were to win Peru's presidential election (the first round is on April 10th). Mr Humala says he would "promote integration with everyone, not giving priority to some countries." And he has close ties with Brazil's ruling Workers' Party.

The third hurdle is sheer distance. Colombia's capital, Bogota, is more than 4,000kms (2,600 miles) from Chile's Santiago. And Ecuador, currently a member of Mr Chavez's block, lies squarely between Colombia and Peru.

Some businessmen are sceptical of the new project. Walter Bayly of Peru's Banco de Credito points out that foreign banks are already free to set up in his country. Although a common market would sweep away barriers to entry in Colombia and Chile, he says that gaining the scale to compete in those countries would require a huge investment. Pointing out that 13 of his bank's 50 biggest clients are Brazilian companies, he says that the Pacific scheme might be a way of gaining greater clout to talk of closer integration with Brazil.

Indeed the main immediate benefit from the new Pacific club might be to let allies know that its members have more than one option. Colombian officials hope that the United States has got the message. They are confident that Barack Obama's administration will shortly send a long-delayed free-trade agreement to Congress for ratification. None of the three

governments sees closer links as building a fortress. As Juan Carlos Echeverry, Colombia's finance minister, puts it: "monogamy is good in marriage, but not in trade."

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Brazil's opposition

When toucans can't

The opposition needs generational and policy change if it is to stay relevant

TOUCANS, Brazilians say, simply cannot get along together: those big beaks get in the way. They are talking not about the colourful native birds, but about the leaders of the Party of Brazilian Social Democracy (PSDB), dubbed *tucanos* after their party's symbol. The PSDB governed Brazil for eight years under Fernando Henrique Cardoso, who laid the foundations for the country's subsequent economic success. It is still Brazil's biggest opposition party, but in the past three elections it has steadily lost seats in both houses of congress. The next presidential election is not until 2014, but already three big beaks are squabbling over who should be the candidate. Many think the party will split unless it swiftly unites behind one of them.

The bills in question belong to Jose Serra, the party's defeated presidential candidate in 2002 and 2010; Geraldo Alckmin, governor of Sao Paulo state and presidential loser in 2006; and Aecio Neves, who was governor of the state of Minas Gerais until he stepped down last year to run for and win a Senate seat. Pundits expected that after his second defeat, Mr Serra would step aside in favour of the younger, more charismatic Mr Neves. But by ending his concession speech with the words: "This is not 'farewell', but 'see you later'," he made it clear that he would not.

Mr Alckmin is trying to sideline Mr Serra by touting him as the PSDB's candidate in 2012 for mayor of Sao Paulo (a job Mr Serra held in 2005-06). The current mayor, Gilberto Kassab, a friend, is setting up a new party that some think could accommodate Mr Serra if the PSDB does not bend to his will. If he is overlooked again, Mr Neves, too, might well leave the PSDB. With him would go the party's best hope of regaining the presidency.

Supporters of both Mr Serra and Mr Alckmin take comfort from the career of Luiz Inacio Lula da Silva, who only became Brazil's president on his fourth try. But the analogy is strained. Lula's Workers' Party (PT) built a powerful organisation when it was in opposition; the PSDB, by contrast, is growing weaker.

Unlike the PT, the PSDB was always more of a club of brilliant technocrats than a mass organisation. But younger *tucanos* complain that the party's founding generation, who came to prominence during Brazil's military dictatorship of 1964-85, have failed to yield to fresh faces. In last year's election many younger voters plumped for Marina Silva, a PT

dissident running for the Green Party. Middle-class Brazilians, the PSDB's bedrock supporters, could also defect. Polls suggest that Dilma Rousseff, Lula's successor, is both more popular than he was three months into his first term and, unlike him, equally well thought of by rich and poor.

Just as damaging as the PSDB's profusion of would-be leaders is its lack of a distinctive programme. When Lula took office he adopted *tucano* economic policies wholesale. There is now little ideological distance between the PT, whose roots are in the labour movement, and the PSDB. While Lula was president the PSDB sold itself as the party of good administration, but that is harder against Ms Rousseff, who is known as a capable manager. Even privatisation, embraced by Mr Cardoso but excoriated by Lula, is no longer a defining difference. Ms Rousseff has said she will open up airports to private investment.

This policy overlap will confront the eventual victor of the PSDB's power struggle with a difficult choice. Should the party stick to the centre-left and hope that the tide turns against the PT-because of a huge scandal, say, or an economic bust? Or should it move rightward, towards political territory that is almost unoccupied.

Although Brazil's tax take is high for a middle-income country, politicians have long believed that public spending, not tax cuts, gets them elected. The poorish majority will be grateful for any handout, the argument goes, and not notice how much tax they are paying. Indeed, Bolsa Familia, Lula's flagship anti-poverty programme, returns less to many recipients than they pay in sales tax on food.

A politician with the courage to challenge the tax-and-spend consensus could reap rich electoral rewards, says Alberto Almeida of Instituto Analise, a consultancy in Sao Paulo. In recent polls and focus groups he has found that Brazilians, including the poorest, have woken up to the fact that they pay high taxes. Lula's decision to prop up demand during the world recession by temporarily slashing the sales tax on white goods acted as a tax primer, the pollsters found. Brazilians had not previously realised that such a big chunk of the cost of a fridge or cooker goes to the government. Asked whether they thought the tax cut should be kept, or made even deeper, or reversed and the extra revenue used for social programmes, two-thirds plumped for even deeper cuts. That is one of several reasons why the toucans need to find a new song to warble.

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Venezuela's militia

A Caribbean Tripoli?

Hugo Chavez grooms a militia

IT IS a long way from Tripoli to Caracas. But although Hugo Chavez, unlike his friend and close ally Muammar Qaddafi, is an elected president, there are some striking similarities between the Libyan and Venezuelan regimes. Mr Chavez's grassroots "communes" resemble Colonel Qaddafi's "people's committees", for example. And a new decree, published last month, speeds up the creation of a sectarian militia like that which opened fire against unarmed protesters in Libya.

A year ago Mr Chavez assembled more than 30,000 uniformed, gun-toting militiamen and women for a parade in the centre of Caracas. Unsheathing a sword that belonged to Simon Bolivar, Venezuela's independence hero, he led them in an oath to work tirelessly to "consolidate...the socialist revolution". Officials claim that the militias total 125,000, and that the goal is to reach 2m. Sceptics put the number trained so far at under 25,000.

Under the new law, the Bolivarian militia will now have its own officers and will be commanded directly by the president. That is something the army previously resisted. But General Carlos Mata Figueroa, the defence minister, insists that the militia is a "complementary", not parallel, force. According to Carlos Escarra, a *chavista* legislator, it is "disingenuous" of opponents to suggest that the militia "will be a sort of praetorian guard for the president".

Mr Chavez's own statements suggest otherwise. The president has always said that his leftist "revolution" is "peaceful, but armed", and that violence would ensue if it were to be thwarted. In December 2012 he faces a presidential election which

opinion polls suggest he might lose. But both he and his top general, Henry Rangel Silva, have said that the armed forces would resist the orders of a post-Chavez government. According to General Rangel, the high command is "wedded to the political project" of Mr Chavez.

The officer corps may not be. A recently retired military dissident says only 10% are unconditional *chavistas*, with 20% constitutionalists and the rest pragmatic. If so, Mr Chavez's decision to strengthen his paramilitary force may make sense to him. But it bodes ill for peace in Venezuela.

Like Colonel Qaddafi, Mr Chavez also has foreign fighters he may be able to count on in a fix. Venezuela has an unknown number of Cuban military advisers. Some sources say the Cubans give orders and (with Russians) run the intelligence service. But tens of thousands of Cubans, all with military training, have been deployed across the country as medical staff, sports instructors and the like. Many have defected and fled abroad. But some might defend the revolution, guns in hand.

Such a scenario is an explicit part of the government's planning. Mr Chavez claims, and may even believe, that "the empire" (ie, the United States) is seeking an excuse to topple him by force. Colonel Qaddafi, he declared, "is doing what he has to do, resisting imperialist aggression". The doctrine of Venezuela's armed forces now includes a version of what Cuba calls "the war of all the people". In theory, all Venezuelans must train to resist an occupier.

Many Venezuelans fear that the militia is really aimed at Mr Chavez's domestic opponents. The president accuses the opposition leadership, almost daily, of being a fifth column for foreign capitalists desperate to grab the country's oil. From there, it is a short step to imagining the *chavista* militia, armed with Russian Dragunov sniper-rifles, taking aim at counter-revolutionaries. "It is not possible to stage an unarmed revolution against this bourgeoisie," Mr Chavez told his militia rally last year. Mere bravado, perhaps, but many Venezuelans fear he may be serious.

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Haiti's new president

Tet offensive

Popular result, murky past

WITH post-earthquake reconstruction sputtering amid official lethargy, the slow disbursal of aid, a cholera epidemic and a political vacuum, Haitians have had little to celebrate. At last some have found a reason to do so. This week officials

declared Michel Martelly, a popular *kompa* (Haitian *merengue*) singer, the winner of the country's chaotic presidential election, with more than two-thirds of the vote. That prompted fireworks, dancing in the streets and a symphony of car-honking and gunshots fired in the air. Technically, the result is just preliminary. But an aide to Mr Martelly's opponent, Mirlande Manigat, said she would not challenge it. Aid donors blessed the outcome.

Mr Martelly was once best-known for dressing in drag and mooning his fans on stage. He has admitted to smoking crack cocaine. In 1995 he vowed to perform nude on top of the National Palace if he became president-a promise he will not have to keep, since the building collapsed in the earthquake of January 2010. As a candidate, he toned down his antics and donned bespoke suits. But he still appealed to Haiti's youthful majority. They called him "Tet Kale," a reference to his "peeled", or bald, head.

Assuming he takes over on schedule on May 14th, Mr Martelly will be Haiti's first elected leader with no ties to the movement that ousted Jean-Claude Duvalier, a dictator, in 1986. Discerning the president-elect's politics is difficult. He was a close friend of the brutal military leaders of a 1991 coup and has talked of recreating the army, causing many Haitian intellectuals to fear he is a right-wing demagogue.

But in a victory press conference Mr Martelly made a point of mentioning civil liberties and the rule of law. He promises much besides: job-creation, education, health, justice and help for farming. But he has yet to announce priorities or strategies. Some worry that he lacks the political experience and management skills necessary to juggle the demands of state-building with those of donors.

The road ahead looks as rutted, rocky and slow as any in rural Haiti. The party of Rene Preval, the outgoing president, dominates the newly elected legislature. Despite Mr Martelly's visible support on the street, his mandate is not particularly broad. Just 23% of registered voters cast valid votes in the run-off election, recalling the title of one of Mr Martelly's mid-1990s hit albums: "I Don't Care".

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India's skewed sex ratio

Seven brothers

An aversion to having daughters is leading to millions of missing girls

"WE'RE going for a trip", Sakina remembers her older sister saying. Orphaned and poor, the girls were happy to leave their home in Kolkata. Taken 1,300km to Kotla, a village on the wheat plains south of Delhi, the 12-year-old Sakina was dumped in the arms of an older man while her sister fled. The man, a wage labourer, had paid over 5,000 rupees ($100, today) to a *dalal*, or broker, who arranged to ship unwanted girls to places short of them.

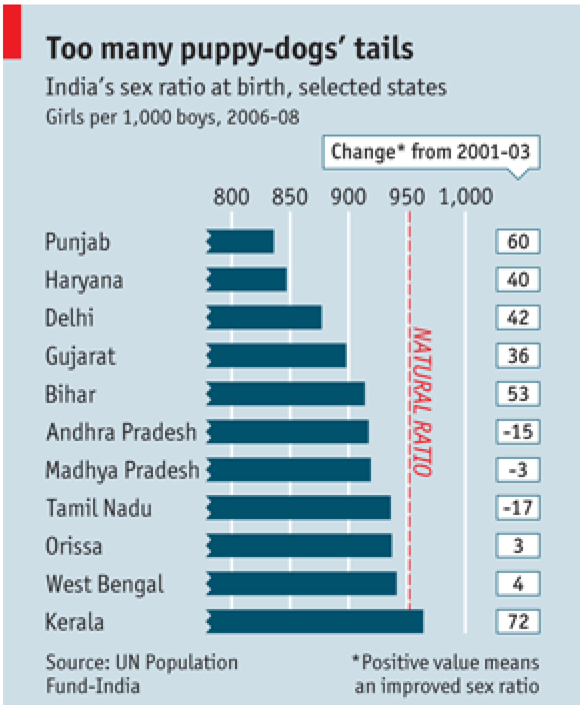
Sakina, now taking a break from the first harvest of the year, recalls the early misery of her new home. A Bengali forced into marriage, she was jeered at as a *paro*, a term for female outsider in Haryana, and shunned. We are treated as goats, mutters another woman, imported from Hyderabad. "It was when I started having children that I realised I had no time to be upset," Sakina says. She has produced nine offspring, eight of them boys. Now she worries about getting brides for them-and says she is even ready to repeat her own sad history by contacting a *dalal*.

She may have to. Early data from February's national census, published on March 31st, show India's already skewed infant sex ratio is getting worse. Nature provides that slightly more boys are born than girls: the normal sex ratio for children aged 0-6 is about 952 girls per 1,000 boys. Since 1981, the ratio has steadily fallen below that point: there were 945 girls per 1,000 boys in the 1991 census, 927 in 2001 and now 914. Fast growth, urbanisation and surging literacy seem not to have affected the trend.

The ratio is most distorted in the states of the northern Gangetic Plain, such as Punjab. Haryana, Sakina's home, remains the direst of all, with only 830 girls per 1,000 boys. More worrying, places that used not to discriminate in favour of sons, such as the poorer central and north-eastern states, have begun to do so. Economic success, argues Alaka Basu, a demographer, "seems to spread son preference to places that were once more neutral about the sex composition of their children." The new census showed a worsening sex ratio in all but eight of India's 35 states and territories (though those eight include some of the most extreme examples, for instance, Punjab).

The "missing girls" are usually aborted, shortly after the parents learn of their sex. A short drive from Kotla to Nuh, a typical trading town, shows how. The main road is dotted with clinics that boast of ultrasound services. Requests for a scan to check the sex of a fetus are turned down at "Bharat Ultrasound" and "City Care Hospital", but a nervous medic at one does recommend a place that would do it.

In fact, says Gaushiya Khan, a local activist, medics are ready to reveal a fetus's sex for as little as 600 rupees. Doing so is illegal, and discouraged by various campaigns, but the law is almost impossible to enforce. Slapping the father on the back and saying "you're a lucky man" is hint enough. Demand for scans is rampant. Entrepreneurs are said to tour villages with scanners on bicycles.



The impact on Indian society is grim. You might have thought that scarcity would lead to girls being valued more highly, but this is not happening. One measure is the practice of giving dowries. Almost no one, rich or poor, urban or rural, dreams of dispensing with these. Rather, as Indians grow wealthier, dowries are getting more lavish and are spreading to places where they were once rare, such as in Tamil Nadu and Kerala, in the south. In Kotla women huddled around Sakina shake their heads when asked to imagine life without dowries: "then nobody would find a husband", they say.

A skewed sex ratio may instead be making the lot of women worse. Sociologists say it encourages abuse, notably in the trafficking of the sort that Sakina first suffered from but is now ready to pay for. Reports circulate of unknown numbers of girls who are drugged, beaten and sometimes killed by traffickers. Others, willingly or not, are brought across India's borders, notably from Bangladesh and Myanmar. "Put bluntly, it's a competition over scarce women", says Ravinder Kaur of the Indian Institute of Technology in Delhi.

Men, especially if poor and from a low caste, suffer too. Women in India are sometimes permitted, even encouraged, to "marry up" into a higher income bracket or caste, so richer men find it easier to get a bride. The poor are forced into a long or permanent bachelorhood, a status widely frowned upon in India, where marriage is deemed essential to becoming a full member of society. Poor bachelors are often victims of violent crime.

Yet, bad as things are, sex selection may slowly be turning around. Though the sex ratio has been worsening for decades, it is doing so more slowly. The figure in 2001 was 1.9% worse than it had been in 1991. The figure in 2011 was 1.5% worse than in 2001-an improvement of sorts.

Moreover, the ten-year census may not capture what has been happening recently. For that, go to the sample surveys that India carries out more often. These show a different pattern. The figures are not strictly comparable, because sample surveys show the sex ratio at birth, whereas the census gives it among infants up to the age of six. Still, it is significant the sex ratio at birth is improving, not worsening. In 2003-05 the figure was 880 girls born per 1,000 boys. In 2004-06, that had risen to 892 and in 2006-08, to 904. It is not clear why this should be. The samples could be misleading. But perhaps they reveal a recent change in Indian attitudes towards the value of daughters.

The fears about India's sex ratio are not merely of the harm that today's level will cause when children become adults. People also worry that the ratio will get ever worse, deteriorating towards Chinese levels (which are even more extreme: on a comparable basis, China's sex ratio at birth is about 833). This fear, thinks Monica Das Gupta of the World Bank, may be exaggerated. Not only are there signs of an incipient national turnaround, but regional figures give further reasons for hope. The states with the worst ratios, Haryana and Punjab, seem to have had skewed ratios for decades, going back to the 1880s. They now show some of the biggest improvements.

The national average is worsening thanks to states which once were more neutral with regard to sex, such as Tamil Nadu and Orissa. But because they have not had the historical experience of a strong preference for sons, Ms Das Gupta suggests, they also seem less likely to push the sex ratio to the extremes that it reached in Punjab or China. If so, the next census in 2021 could show the beginnings of a shift towards normality. With luck, the deterioration in north-east and central India-damaging though it will certainly be-may not mark the start of a fresh erosion in the value of Indian girls.

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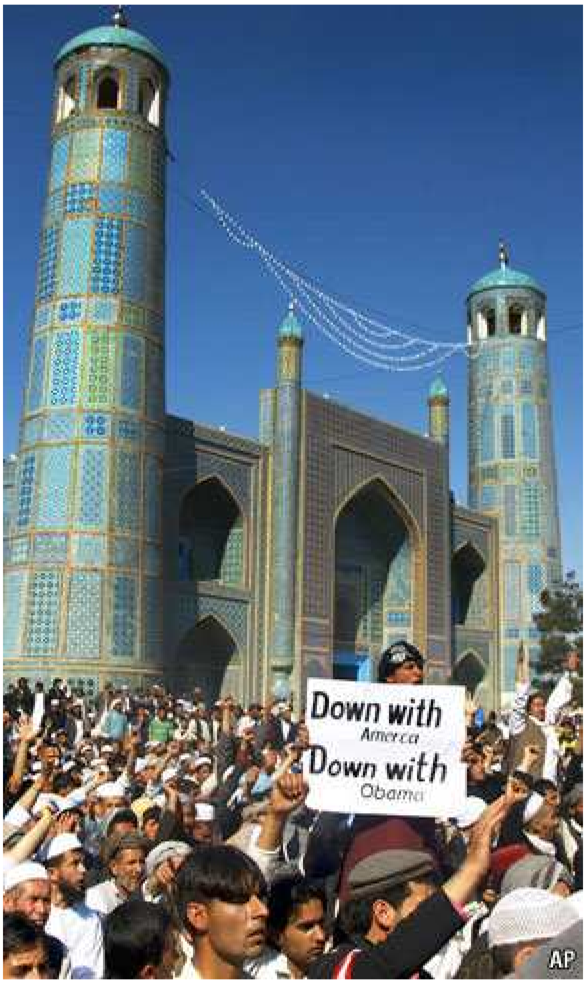
UN attacked in Afghanistan

Burning passions

Singular incident or harbinger of something worse?



WITH its tiles of the purest blue, few places on a bright spring day rival the beauty of the Shrine of Hazrat Ali. Yet from here enraged worshippers poured onto the streets of Mazar-i-Sharif on April 1st. Foreign diplomats had until that moment painted the city as the model for a future Afghanistan that could be both prosperous and stable. But the worshippers had been worked up by tub-thumping sermons denouncing the recent burning by Christian bigots in Florida of a copy of the Koran.

The crowd turned towards the UN's office in the city. They seized weapons from the hands of the Gurkha security guards under orders not to fire into the crowd. Some torched vehicles inside the compound while others, as the UN spokesman put it, "hunted down" foreign staff.

Three Europeans and four Nepalese guards were killed. The Russian head of the office survived by pretending he was a Muslim. The day after the disaster, policemen guarding the shrine told this correspondent to clear off, saying they did not want any more foreigners killed here. Though the city had an eerie calm, as if nothing were amiss, many foreigners in Afghanistan, not least the big UN contingent, are now asking whether this was a singular incident or a harbinger of worse outbreaks of violence.

The attack was followed by days of lethal rioting in Kandahar and other cities. Staffan de Mistura, the UN chief in the country, claimed that up to 15 insurgents had infiltrated the demonstration in Mazar-i-Sharif. It all comes against a backdrop of rising anti-foreign sentiment caused by accidental killings of civilians by NATO forces and a general disillusionment after nine years of patchy and ineffective Western intervention and reconstruction.

Given the failure of the Afghan police to protect the UN compound, a broader concern is whether the country's security forces will ever be up to the job of managing less benign areas of Afghanistan than Mazar-i-Sharif, which is far from the Taliban's heartland. From July, Afghan forces are meant to begin taking over responsibility for the security of some of the safer areas, Mazar-i-Sharif among them, from the NATO-led international coalition. Over four years, they are supposed to ensure the security of the whole country.

Another concern (yet again) is the behaviour of Hamid Karzai, the Afghan president. Some outsiders are furious that he highlighted the activities of the Koran-burning fanatics. Last September the mere threat to burn a Koran drew big media attention and denunciations from President Barack Obama. This time media and politicians kept quiet about the deed. Mr Karzai, on the other hand, thundered against it, making a speech and, in case anyone missed that, putting out a press

release. He called it "a crime against religion and the entire Muslim *umma* [community]". Aides say that the president decided to get out in front of any public anger. His critics call it another example of irresponsible posturing. Mr Karzai is too often keen to distance himself from foreign allies while counting on their support.

As for the UN, the killings are another milestone in the organisation's sad decline in Afghanistan. Onerous security has already constrained what once was an excellent corps of political officers. An attack on a UN guesthouse in Kabul in 2009 killed five. Another bad hit, and the UN, holed up in its fortresses, will wonder about being in the country in any numbers at all.

Kazakhstan's thumping election

Sensational

Nursultan Nazarbayev is eternal but, still, who comes after him?

Eeny, meeny, miney, moe

WHILE demonstrators in north Africa and the Middle East are standing up to one-man rule in their countries, great numbers of people in Kazakhstan thronged to the polls on April 3rd to vote for an authoritarian strongman who has been in power since the days of the Soviet Union. And how they voted. President Nursultan Nazarbayev got 95.5% of the votes on a turnout of 89.5%, a touch of almost Soviet class. Ever higher support in successive elections for the glorious "leader of the nation" is nothing new.

It had, said the 70-year-old before a crowd of mainly young Kazakhstanis waving the sky-blue national flag, caused a "sensation" in Western capitals. Elsewhere in the world was bloodshed and strife. But here, Mr Nazarbayev beamed, his election proved that unity ruled among ethnic groups and religions, and all was bliss.

The observer mission from the Organisation for Security and Co-operation in Europe (OSCE) was less enthused. It noted "serious irregularities," such as identical signatures on voter lists and instances of ballot boxes being stuffed. The OSCE found "undue pressure" on people to vote, especially those working for state institutions such as schools, hospitals and the armed forces. None of this is new either. Of the three rival candidates, one of them admitted that he voted for the incumbent, as did his family. The presidential election was called suddenly, at two months' notice, leaving little time for opposition parties to prepare. Some opposition groups think they have a better chance in parliamentary elections due in 2012 or perhaps later this year.

Election dates are often moved up in oil-rich Kazakhstan, whenever it suits the authorities. The term of Mr Nazarbayev was due to end in late 2012. Early this year, a curious national drive to collect millions of signatures endorsing a referendum whose aim was to allow Mr Nazarbayev's presidential term to be extended to 2020 earned strong criticism from the West. After backing down from that initiative, an adviser says, Mr Nazarbayev would have looked foolish just twiddling his thumbs. So he kept up the momentum by announcing early elections instead. The West duly praised him.

Rigging aside, Mr Nazarbayev appears genuinely popular, and would have won handily anyway. But appearances are all. Last year parliament designated him "leader of the nation", granting him far-reaching powers beyond his term in office. Perhaps Mr Nazarbayev felt he really had to do better than the mere 91% of votes he wangled in the last presidential election, in 2005.

The nation's father has always said economics comes first, politics second. Since the early 1990s, market reforms and reserves of oil and gas have helped boost per-head GDP from around $700 to more than $8,000, making Kazakhstan a middle-income country. Ethnic strife in a multi-ethnic land has been notably absent. Politically, however, Kazakhstan has stagnated. Dissent has been stifled. Pro-Nazarbayev media dominates.

The pressing matter is Mr Nazarbayev's failure to resolve his own succession. He will, he says, serve as long as his health and people allow, ie, for ever. So everyone, from the elites to ordinary folk to foreign investors, worries that he will take the country's stability with him when he goes. The name of a new chairman of the Senate is expected soon. He will be the formal successor should the president die or be incapacitated in office. Rarely do long-serving strongmen make a habit of nurturing successors with ambition and talent.

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Malaysia's opposition leader

Lights, camera...Anwar?

About Anwar Ibrahim, opinions swing both ways

AUTHORITIES in Malaysia normally take a tough line against pornography, fearing to offend the country's Muslim-Malay majority. Frank talk is also discouraged: radio stations opted to garble the lyrics to a popular Lady Gaga song, "Born This Way", which urges tolerance of homosexuality. Normal rules do not seem to apply, however, when it comes to dishing the dirt on Anwar Ibrahim, the opposition leader.

He is currently on trial for alleged sodomy of a male aide, a virtual rerun of a lurid trial in 1998 that ended in a conviction. Now Mr Anwar has been linked to more hanky-panky, this time with a woman. In late March some Malaysian journalists were shown a video that purports to be of Mr Anwar having sex in a hotel room with a foreign prostitute. He strenuously denies that he was the man in the film and says his political foes have cooked up yet another smear campaign. The police have launched a criminal investigation into the steamy video, culled apparently from grainy closed-circuit television images.

The men behind the video say it demonstrates how Mr Anwar is unfit to lead Malaysia. A right-wing Malay group says he has insulted "Islam and the Malay race". When a similar scandal erupted in 2008, over a video of a (non-Muslim) cabinet minister, Chua Soi Lek, romping with a prostitute, he quit in disgrace. The stakes are higher for Mr Anwar, given his ongoing sodomy trial and a base of Muslim voters. His fractious opposition is contesting a big state election in Sarawak on April 16th.

Mr Anwar's accusers have their own skeletons. One, Rahim Thamby Chik, was forced out in 1994 as chief minister of Malacca after he was charged with raping a minor (the charge was later dropped). As it happens, MrAnwar was the deputy prime minister at the time, and gave Mr Rahim his marching orders.

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Coping with Japan's nuclear disaster

Living with radiation

A spreading cloud of economic and human costs

Giving the brassicas a once-over

A PEN-LIKE dosimeter hangs around the neck of Katsunobu Sakurai, the tireless mayor of Minamisoma, measuring the accumulated radiation to which he has been exposed during the past two weeks of a four-week nuclear nightmare. The reading of 43 microsieverts is about the dosage he would get from a single chest x-ray. No cause for alarm, then. Yet he believes the radioactive particles from the Fukushima Dai-ichi nuclear-power plant, 25km from his office, have led this once-prosperous city of 70,000 into a fight for its life.

About 50,000 inhabitants who lived closest to the plant have been evacuated or have fled since radiation levels started to rise after the March 11th tsunami-which also left at least 1,400 of the town's residents dead or missing. Even though external radiation has since returned to near-harmless levels, Mr Sakurai fears many of Minamisoma's evacuees may never come back.

Three worries predominate. One, the information passed out by the government and Tokyo Electric Power (TEPCO), which owns the Dai-ichi plant, may be unreliable. Two, the plant is still unstable, at risk of suddenly emitting vastly greater amounts of radioactive particles. Three, the longer it takes to stabilise, the more lasting damage wind- and waterborne radiation may do to the livelihoods of the farmers and fishermen who are the economic lifeblood of the community. If they go, so does the town.

These worries resurfaced on April 7th when TEPCO started to inject nitrogen into one of the plant's six stricken reactors. That was to prevent a repeat of the hydrogen explosions that blew radiation out of the plant soon after cooling systems failed in the wake of the tsunami.

Even before that news, Mr Sakurai was saying that he was fearful of another explosion. It was why he continued to discourage hope that the town could get back to normal. "The lack of information is making people deeply stressed and frustrated," he said.

The prompt dissemination of accurate information is not happening, though. By April 6th TEPCO had managed to staunch the leakage of highly contaminated water from one of the damaged reactors that had produced levels of radioactive iodine 7.5m times the legal limit in one sample of seawater. But that was not before fishermen about 70km south of the plant had caught tiny sand-eels, known as *konago*, with larger than normal traces of radioactive iodine and caesium. The unwelcome discovery prompted Naoto Kan, the prime minister, to issue a new safety standard for levels of radioactivity in marine products. Knowing the public's fears of unsafe food (and no doubt encouraged by the promise of compensation), the local *konago* fishermen had already pulled in their nets for the season.

The fear of contamination is spreading internationally, too, and the government is learning that it is not enough just to present scientific evidence about radiation levels. On April 6th India suspended all Japanese food imports. Neighbouring South Korea expressed concern that it was not warned about TEPCO's decision to dump low-level radioactive waste into the sea to make room to store more toxic stuff on land. South Korea does not share a sea with Fukushima. But South Korea, like Japan, has a vibrant seafood culture. Rational or not, perceptions matter.

With more emotion than sense, electronic components, machine parts and even towels made far from Fukushima have required radiation checks or been turned back by Italy and China, among others. The Japanese authorities have not helped by falling back on technocracy rather than a more sympathetic response. Shippers have urged the government to issue certificates that would assure foreign ports that goods are radiation-free. Instead, Japan expends its energies mainly attempting to convince shippers about the safely low levels of radiation in the country at large. "The question is how to reduce anxiety, not present science," says Katsunori Nemoto of Keidanren, Japan's business lobby.

At a time when the Japanese economy needs help, to date around 50 countries have imposed restrictions on Japanese imports. America, which buys one-sixth of Japanese farm exports, has put products from Fukushima and three other prefectures on a watch list. The European Union has named a dozen prefectures that need radiation tests, yet traders in these places report a lack of testing equipment. In one case, says an executive at a Japanese trading house, tuna that arrived in America was set aside by customs, rotting before it was inspected. A sake brewer on a sales trip to Las Vegas noticed that Japanese food was off the menu at hotels.

So far the direct economic impact of radiation fears on exports is slight. Fishing and farming account for a very small part of Japan's total exports, even if a disproportionate share in Japan's stricken north-east. Even so, the reputation for high quality enjoyed by Japanese-sourced food will probably suffer.

At home, the impact on domestic demand may be much bigger. Economists say fears of radiation dampen consumer confidence and extend as far south as Tokyo, which is 250km from the Fukushima plant. Some pundits want the government to launch a publicity blitz to urge ordinary Japanese to spend more. It may do little good, especially coming from a government that does not inspire confidence. Many ordinary Japanese unaffected by the tsunami and nuclear mess either feel a sympathy for the victims or are ashamed to be seen enjoying themselves. The Japanese tendency towards self-restraint, or *jishuku*, is back in force. People are cutting back on everything from shopping trips to *hanami* parties to view the spring cherry blossom.

As for Minamisoma, its residents are fed up with paying the price for a nuclear accident at a plant that brought them little benefit-after all, it sent nearly all its electricity to Tokyo. Takashi Shibaguchi, a 41-year-old acupuncturist who lived on the outskirts of the town, says he will never return home, even though he has no money and is sleeping on the floor of an evacuation shelter with his wife and four-year-old daughter. He is rational about the radiation risks to himself, but fears his daughter growing up in such a potentially poisonous environment. "I'm done with it," he says.

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Banyan

On the defensive

A bad attack of the jitters among Chinese leaders, and dissidents pay the price

THE rest of the world may gasp in awe at China's surging economy and cower somewhat in face of its growing might, but its own leaders seem far from complacent. Indeed, to judge from its latest defence white paper, and from a continuing crackdown on its critics at home, China's government feels besieged.

The white paper, produced every two years since 1998, with the latest dated 2010, did not appear until March 31st this year. Maybe it was late because the world has been changing too fast, in too many unsettling ways. The paper suggests a world resentful of China's emergence as a global power, and trying to thwart it: "Suspicion about China, interference and countering moves against China from the outside are on the increase."

The white paper claims "the armed forces resolutely subdue all subversive and sabotage activities by hostile forces." In fact, that task is being pre-empted by other organs of the Chinese state. They have been conducting the biggest round-up of dissidents, human-rights activists, lawyers and bloggers seen for years.

According to Chinese Human Rights Defenders, an NGO, by April 4th some 30 people had been detained and faced criminal charges relating to the so-called "jasmine revolution"-an inchoate internet campaign to emulate in China recent upheavals in the Middle East and north Africa. Human Rights Watch, another NGO, reports that a further 100-200 people have suffered repressive measures, from police summonses to house arrest. This has been accompanied by tighter censorship of the internet, the ousting of some liberal newspaper editors, and new curbs on foreign reporters in China, some of whom have been roughed up.

Then this week the dragnet pulled in Ai Weiwei, the best-known dissident in China not to be behind bars. A famous artist, with an installation now on display at a gallery in London and a lasting legacy in the "bird's nest" stadium in Beijing built for the 2008 Olympics, Mr Ai is also, as the son of a revolutionary poet, the Communist equivalent of minor royalty. On April 3rd he was detained at Beijing airport as he tried to board a flight to Hong Kong. His companion was told that Mr Ai had "other business".

He has been in trouble before. Last year he was prevented from travelling abroad to attend the ceremony in Oslo where Liu Xiaobo, a jailed Chinese dissident, was awarded the Nobel peace prize. This January his studio in Shanghai was demolished, in what he saw as an act of retribution for his political activism.

Now the police seem determined to find evidence of some "crime". Soon after his detention, a dozen officers arrived at his studio. They detained people they found there for questioning, and confiscated computers. Mr Ai's associates fear that his latest troubles are more serious than previous tangles with the authorities, and that the instructions to take action against

him have come "from the top". After the detention, the official press was at first silent about him, until *Global Times*, a party newspaper, described him as "close to the red line of Chinese law". Then, in a terse midnight report, the official news agency revealed that he was being investigated for "economic crimes". It smacked of "Alice In Wonderland"-detention first, suspected crime later.

In the end, Mr Ai's celebrity seems to have afforded him no protection, and may even have rendered his liberty more precarious. The party seems intent on showing that it will allow no leeway to those dreaming of a people-power movement or democracy. The higher-profile the victim, the more forcibly that message is conveyed. Mr Ai seems likely to become the latest victim of the use of the law to impose political orthodoxy. On March 25th Liu Xianbin, an activist, was sentenced to ten years in prison for "slandering the Communist Party".

Even more worrying, however, is the increasing resort to informal detentions, punishments and disappearances. These are outside the law, offering the victim no protection at all. The government now dismisses the idea that one function of the law is to defend people against the arbitrary exercise of state power. On March 3rd a Chinese foreign-ministry spokeswoman told foreign journalists: "Don't use the law as a shield." Some people, she said, want to make trouble in China and "for people with these kinds of motives, I think no law can protect them."

It is tempting to dismiss the current crackdown as just the latest twist in the unending cycle of repression and liberalisation through which China has been spinning for over three decades. Popular uprisings abroad, like sensitive political anniversaries or big events such as the 2008 Beijing Olympics at home, offer pretexts for a round-up of the usual suspects. They provide a stiff but effective reminder that in China's political system-"a people's democratic dictatorship"-it is the dictatorship bit that counts.

This bout of repression, however, may reflect more than the usual cycle. For a start, it is a huge overreaction. For all the online chatter, no one thinks China is on the brink of a jasmine revolution. Also, with a leadership transition coming next year, and China's new rulers mostly already identified, it helps quash any notion that they might usher in an era of liberalisation.

Never taking off

Although the short-term risk of a copycat revolution in China is small, events elsewhere have demonstrated the long-term corrosive effect on repressive regimes of the internet, mobile telephones and social networks. Better, the party seems to have concluded, to crack down long and hard now than to wait and see. In George Orwell's novel "1984", an intellectual party hack paints a vision of the future as "a boot stamping on a human face-for ever". China has updated that. Its vision seems to be of a computer screen with a message that the website you seek is unavailable; or perhaps of a mysterious encounter at immigration, and the interpolation of "other business" between check-in and flight.

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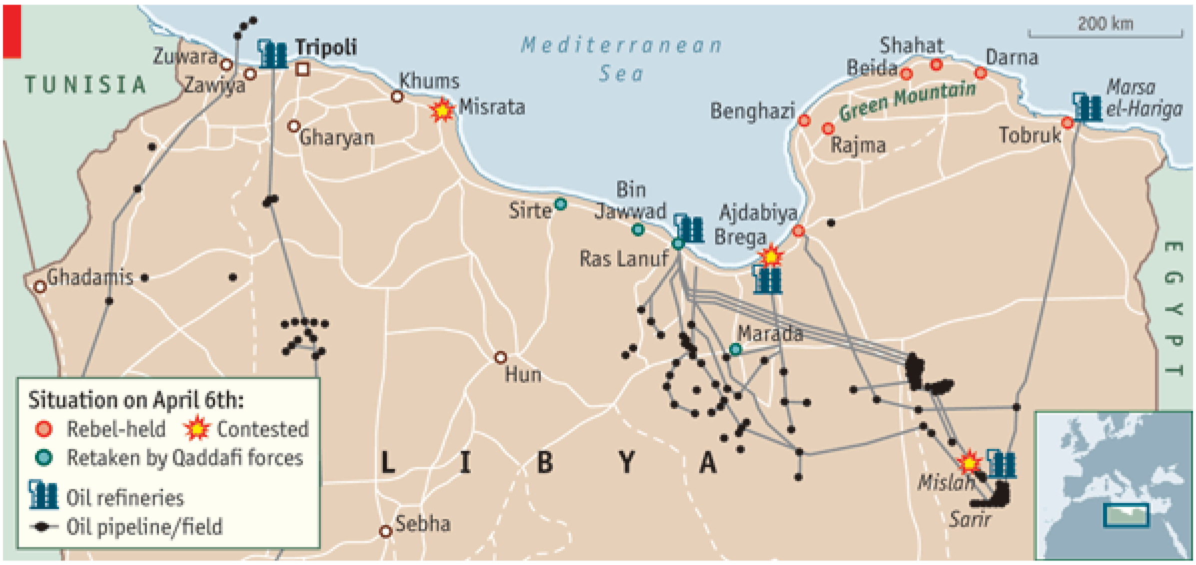
The battle for Libya

Time is running out for Muammar Qaddafi

Despite some success on the battlefield, the Libyan regime appears to be more beleaguered than ever

IT IS too soon to talk about a stalemate in Libya. But the military situation appears, for the moment, to have stabilised after several weeks of seesawing fortunes along the coast road west of Benghazi. That leaves space for more active diplomacy.



Not that there has been much respite in the fighting. Fierce skirmishes between government and rebel forces have continued around the oil-refining town of Brega. Despite the arrival of humanitarian help from the sea, Misrata, the rebels' western redoubt, is still being terrorised by pro-Qaddafi snipers and occasional shelling (see map). And after a lull last week in coalition air strikes, largely due to low cloud, the pounding of loyalist targets has resumed with clearer weather.

Better trained and with their communications still intact, government forces have not given up. The colonel may have reinforced them with fresh troops from the south. And from Marada, an oil town at a desert crossroads south of Ajdabiya, his forces have made inroads into Libya's eastern zone, where some of the biggest oilfields are found. In one attack, a loyalist convoy hit a pumping station linking one of the country's best fields, at Mislah, to the port at Tobruk.

After overreaching themselves with nearly catastrophic consequences, opposition forces seem to be operating with a bit more discipline and listening to the advice of Libyan army defectors. There are also unconfirmed reports of American and Egyptian special forces training rebels to use sophisticated anti-tank weapons covertly brought over from Egypt.

Still, despite claims that the opposition had once more taken back parts of Brega, a rolling barrage by loyalist forces soon had the rebels on the retreat again. "They are packed and concentrated near the road," said a Western security official observing the fighting. "They are not on a war-footing, and don't seem to really want to fight. It's posturing."

There are persistent arguments over whether a loss of momentum in the air campaign contributed to the rebels' setbacks. On April 4th, hours before the Pentagon announced it was withdrawing its combat aircraft from the mission and reverting to a largely supporting role, Ali al-Essawi, the foreign-policy director of the rebels' national council, sharply criticised NATO for failing to respond quickly enough to what was happening on the ground. Speaking in Rome, he suggested that civilians were dying because of bureaucratic delays within NATO over targeting. Things were better, he said, when America, France and Britain were running the show. He was supported by General Abdel Fatah Younis, Colonel Qaddafi's former interior minister who switched sides in late February and is now a leader of the rebel forces. He lambasted NATO for doing too little for Misrata. "It could have ended Misrata's siege many days ago," he said. "It is letting civilians die every day."

However, a senior NATO officer claimed that the sortie rate was the same as before and the strike rate against Colonel Qaddafi's forces higher. "We know where they are and we know how to dislocate them," he said. Government targets in and around Misrata are being pummelled every day, but NATO has a dilemma. Its priority is the protection of civilians, yet loyalist forces are parking their tanks and guns next to blocks of flats, making them hard to hit without loss of innocent life. The officer added: "The coalition had a turkey shoot, we're trying to hunt the wolf in the forest."

The colonel's forces have also stopped attempting to move their heavy weapons across the desert. They now increasingly use light trucks that are faster and harder for NATO pilots to distinguish from opposition vehicles. This has led to two rebel convoys being mistakenly attacked from the air. A coalition defence minister conceded that, although about 30% of Colonel Qaddafi's forces had been destroyed, the new tactics were creating problems.

Another idea that NATO is keen to dispel is that the American pullback has left it short of assets. More than 50 American planes are still flying every day, including some fast jets as well as tankers, electronic jammers and airborne control systems. If NATO needs more strike aircraft, including the A-10s and AC-130s with their heavy cannon and machineguns that are effective in built-up areas, it can call on them at any time and they will be available within hours, says a well-placed source. NATO is, however "tweaking the mix" of planes it is deploying, swapping interceptors for more strike aircraft. The British prime minister, David Cameron, promised to send four more Tornado GR4s. Britain's Air Chief Marshal Sir Stephen Dalton said he was planning for an operation in Libya lasting at least six months.

That may be pessimistic. Colonel Qaddafi's regime could still collapse quite suddenly. Unless wholly deluded, the colonel must know that the military advantage he holds over the rebels is being systematically eroded from the air. In the weeks ahead, as his own forces are worn down, the rebels should get stronger thanks to training, better weapons, secure communications, fresh supplies of ammunition and battlefield experience.

They may also be getting their hands on some much-needed oil money. The Qataris have offered to sell any oil exported from the eastern zone. Though countrywide production has fallen to a trickle compared with the pre-war rate of 1.6m barrels a day, the rebel-controlled Arabian Gulf Oil Company (Agoco) says it has 1m barrels in storage and is pumping 100,000 b/d. On April 5th *Equator*, a Liberian-registered tanker that can hold 3m barrels, docked at the Marsa el-Hariga export terminal near Tobruk. At current prices, its cargo should be worth nearly $120m.

A western oil executive based in Libya until the uprising says Agoco has enough local expertise to keep up production for some time and, given low lifting costs, should be able to make a profit of about $80 on each barrel it exports. But Agoco will need to pump more than 100,000 b/d if the $1.5 billion four-month budget announced on April 4th by the finance minister, Ali Tarhouni, is to be paid for. Colonel Qaddafi's attacks on the oil facilities are designed precisely to prevent the rebels' wallet from being filled (see next article).

The family puts out feelers

In any event, the regime may be looking for a way out. The recent arrival in Britain of Moussa Koussa, the foreign minister and former intelligence chief, must have hurt the colonel. Others may want to jump ship. Since Mr Koussa's departure, Abdelati al-Obeidi, the deputy foreign minister (since promoted) a long-serving aide of the colonel, has been in Greece, Turkey and Malta to take soundings. A reported effort by shadowy representatives of Saif al-Islam Qaddafi, the colonel's supposedly modernising son, to persuade Western governments that he could preside over an interim government of national unity was further evidence of cracks at a high level. But few took seriously the idea that Qaddafi *fils* could sideline his father and usher in sweeping reforms. A bizarre letter from Saif's father to "our son" Barack Obama asking him to stop the "unjust war" was similarly rebuffed.

The announcement by the Italian foreign minister, Franco Frattini, that his government had decided to recognise the national council as the sole legitimate representative of the Libyan people and was ready to supply arms to the rebels, must also have come as a nasty shock to the regime. Italy is not only the former colonial power. It gets a third of its oil from Libya and there is a web of other commercial interests between the two countries. Mr Frattini could not have made it plainer that Italy now reckons the Qaddafis are finished and that his country's economic interests lie in building relations with the opposition. Other countries are making the same calculation. The military campaign against the colonel may appear to have stalled, but time is running out for him.

European and UN diplomats and aid teams, plus a handful of oilmen, have descended on Benghazi's hotels, as its airport welcomes its first international flights. Beefier types, calling themselves "freelances", have surfaced en route to the front. Rebels say they have a joint command centre outside Benghazi, from where they co-ordinate with NATO.

Few Libyans in the east seem to care whether Western boots are on the ground. Since Western bombing stopped the colonel's tanks advancing on Benghazi two weeks ago, Libyans' threshold for accepting foreign intervention has become markedly lower. An imam who ranted at the prospect of Western occupation a month ago now welcomes foreign special forces as long as they keep out of sight. Arms and training, if not large numbers of Western troops, may yet help turn the tide.

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Libya's fledgling government

Early days, early rivalries

The rebels are trying to create order very slowly out of chaos

THE day after Colonel Muammar Qaddafi's forces attacked oil installations in Libya's east, hundreds of workers converged on the Benghazi headquarters of Libya's largest oil producer, the Arabian Gulf Oil Company, better known as Agoco, to complain about the running of the oil industry under the new order. A raucous meeting ended only when Agoco promised to keep the head of its management committee, whom the oil workers had chosen when they joined the uprising, despite objections from the transitional national council, the rebels' fledgling government. "People don't understand we're in a war," says an Agoco manager.

Such infighting, along with damage to the oil installations, is hurting a company which, under the colonel's control, had been a rare example of professional order in an otherwise chaotic state. But bitter rivalries have surfaced, now that the strongman's grip has been removed. "Local godfathers are trying to carve up the country as fast as foreign players," moans an engineer recruiting members for a trade union.

The generator at Mislah, which produces some of Libya's best-quality oil, was attacked by pro-Qaddafi forces just as the national council was preparing to sell its first tanker of oil. It pushes oil north from three of Libya's largest fields 560km (348 miles) to the port of Tobruk. Engineers say the facility may take months to repair. With the colonel's forces able to operate in the desert, most oil workers have fled. "We've shut down operations until military forces are deployed," says the council's new oil-corporation head, Wahid Bugaigis, back from exile in Houston.

In Benghazi other rows have erupted, partly over sharing the spoils of office. People have begun to mutter against the council-and against Westerners for not helping enough. Some grumble that old families from the Turkish Ottoman era, such as the Bugaigis and the Gherianis, related by marriage, are getting too many of the jobs in the budding new set-up; "We won't let them substitute one family business for another," says a Libyan oilman.

Rivalries have also arisen in the rebel forces. Some say the overall commander is Khalifa Haftar, a general who has returned to help the rebels after many years in retirement in the United States. But Abdel Fatah Younis, Colonel Qaddafi's former interior minister who switched sides in late February, insists that he is in charge and that General Haftar has no official post.

The rebels have virtually no institutions to hold their eastern zone together. But the vacuum is steadily being filled. Courts have started to function again. The rebels have even set up an embryonic intelligence service. The nights have become quieter since the police, back in action, started to question people wielding unlicensed weapons. After dusk volunteers man checkpoints inside Benghazi and outside its main hotels. Businessmen say that mobile telephones and the internet will be reconnected to the outside world within a week or two. Despite the no-fly zone, aircraft and even military helicopters fly in and out of Benghazi's rebel-held airport.

Yet people are getting anxious and even angry as they fear that outsiders, including NATO, might be losing enthusiasm for the cause. "The mood on the street is changing," says a Libyan businessman, sounding suspicious of outsiders' motives. "Our people are being killed," he says. "We might ask all foreigners to go away."

As people begin to suspect that a military stalemate may last months, some are worrying that the self-appointed council may entrench itself with no accountability. It presents itself as the new Libya's legislature, with a "crisis-management committee" as its government, alongside a plethora of lesser committees. But it is not always clear who is in charge or where lines of command are being drawn.

The council has yet to begin untangling the legal and legislative knots that have snarled up the economy for so many years. For instance, Colonel Qaddafi's Law Number Four, which empowers the state to confiscate private property and resell it, has yet to be repealed. But doing so would set off a string of compensation claims, which the courts are not yet equipped to assess. "We want our houses back," says Maha al-Shahumi, who helps to run a fledgling prosecution service in the council's courthouse. "We won't rest till we do."

Some of the new order's more liberal backers say the council should set up mechanisms forthwith to ensure openness. It should schedule provincial elections, start drafting a new school syllabus and promise a rapid reform of the army and security service, once the colonel has been toppled. In particular, the new council, based as it is in the east, must widen its composition and strive to persuade Tripolitanians in the west that a decent new order is being built. It must also reassure foreign governments that it can be a worthy interlocutor.

But it may be premature to tackle such issues. For one thing, the rebels still hope they will have captured Tripoli within a few months, if not sooner. And until they do, it is hard to see them starting to create a brave new world, in either the east or the west of their devastated country.

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Yemen's president

Going, going...

He really is on the way out

IT IS hard to imagine how things could get worse for Ali Abdullah Saleh, Yemen's leader of the past 33 years. In recent times he has faced a Shia insurgency in the north, a separatist movement in the south, and al-Qaeda terror here and there. Since January the threat has turned more personal, with mass protests against his rule engulfing cities across the country, sparking a crackdown by his loyalists that has left 120 people dead and prompting waves of defections from his government and army.

Now his backers of last resort, including his own tribe and aid donors such as Saudi Arabia and the United States, are ushering him towards the exit. The Gulf Co-operation Council, a six-strong rich man's club of neighbours, has invited him and his foes to talks in the Saudi capital, Riyadh, to find a face-saving formula for his departure. Yet the opposition, which consists not only of veteran political parties and tribal sheikhs, but also younger leaders of the recent urban protests, seems loth to compromise. If Mr Saleh does not go, Yemen may well explode into all-out civil war. If he does, it will probably stay unruly and terrorism-prone for years to come.

That things should have come to such a pass is not entirely Mr Saleh's fault. His starkly impoverished, spectacularly rugged and bandit-ridden country is famously hard to govern. But his style of rule, with its acrobatic juggling of alliances with religious and tribal leaders, combined with nepotism and pleas for help from foreign powers spooked by Yemen's chronic instability, has put the country into an increasingly untenable limbo. Even as regional clouds of revolutionary fervour gathered earlier this year, Mr Saleh provoked trouble with his plan to amend the constitution to allow himself more terms of office after his current one expires in 2013.

In response, students in the capital, Sana'a, began a sit-in that quickly gathered momentum, spreading to other cities. For the first time Yemen's small urban middle class had joined the ranks of the disgruntled. The protest might have petered out had not snipers in plain clothes, assumed to be security men loyal to Mr Saleh, fired into crowds in the capital on March

18th, killing some 50 people. Similar incidents elsewhere have intensified outrage, most recently in Taiz, Yemen's second city, where suspected police gunfire killed at least 17 protesters on April 4th.

Mr Saleh is now backed by little more than the remnants of his ruling party and a trio of security agencies led by a son and two nephews. Loyalist forces no longer control much of the country, outside the main cities, roads and oil facilities. Saudi Arabia, which has sporadically patronised Mr Saleh in the interest of regional calm, may now be seeking an alternative. America, which lavished arms and counter-terrorist training on units under Mr Saleh's relatives, despite warnings that his government exaggerated al-Qaeda's strength, is hastily dissociating itself from him.

Perhaps Mr Saleh has succeeded in achieving the unity that has eluded Yemen's leaders throughout the country's history. What unites Yemenis now is a determination to see him go.

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Protests in Syria

A cycle of violence may take hold

The people are holding their breath

FOR the third Friday in a row, protests on April 1st pockmarked the country, including the capital, Damascus. With the death toll rising to at least 120 since demonstrations began (some human-rights groups put the figure at well above 200), hostility to the regime of President Bashar Assad is growing. Although he is still more likely to opt for repression over rapid reform, as a cycle of protests, funerals and arrests take hold, nobody knows whether he will ride out the trouble or be swept away by it.

Earlier this month demonstrations in the southern city of Deraa, where the protests began, were followed by protests in Douma, a northern suburb of Damascus, in Banias, Homs, Latakia and a score of towns across the country. Demonstrators also spilled out of the al-Refai mosque in Kafer Souseh, a district of Damascus close to the city centre. Unrest has broken out in a string of villages around the capital. Members of Syria's Kurdish minority have held rallies in the north-eastern town of Kamishli and several smaller places.

Since Mr Assad's unyielding speech to his rubber-stamp parliament on March 30th, when he mentioned reform only in vague terms, he has cracked down harder. Mosques have been ringed with security men. Thugs brought in from the countryside in buses have beaten up protesters. Snipers and other gunmen have shot dead at least 13 people in Douma and Deraa in the past few days. Families of victims have been told they cannot take their bodies unless they are buried quietly at night. Scores of people have been arrested, with passwords for e-mail and Facebook extracted under duress. In the port city of Latakia, a stronghold of Mr Assad's ruling Alawite minority, thugs belonging to the *shabiha*, an Alawite smuggling gang loyal to the Assad family, have sown confusion by playing on sectarian fear. Football matches have been banned.

With independent media blacked out or muzzled, the state media have repeatedly blamed outsiders for the trouble. Few believe this. Many Syrians have turned against Mr Assad since his speech in parliament. The unrest in Kafer Souseh is particularly worrying for him, since it is a prosperous Sunni district where he has generally been liked. Meanwhile, prominent opposition figures who signed the so-called Damascus declaration in 2005 have thrown in their lot with the young protesters, attending funerals and other gatherings.

The stakes are rising. Large demonstrations have yet to occur in Syria's second city, Aleppo. Apart from Kafer Souseh, Damascus has been fairly quiet. But Mr Assad has so far limited his concessions to promises of undefined reform some time in the future, along with pay rises which his flagging economy cannot afford. He has offered mild concessions to Islamists and Kurds, freeing prisoners from both lots, promising to allow new religious institutions to be set up, and saying he would look into the question of granting nationality to some 300,000 stateless Kurds. It was also mooted that he might repeal a ban on the *niqab* (the veil that covers a woman's face) in universities. In any event, few see the recent nomination of Adel Safar, a veteran of the ruling Baath party, to the post of prime minister as a break with the past, and fewer sense that genuine reform is in the offing. In a sign of rising anxiety, American dollars have become unavailable.

Much will depend on the silent majority of Syria's 22m people, especially its leading businessmen and clerics. So far, governments in the region have sounded sympathetic towards Mr Assad. Qatar's foreign minister, in the forefront of opposition to Libya's Muammar Qaddafi, visited Mr Assad as an apparent gesture of support. Al Jazeera, the influential Qatar-based satellite television channel, has infuriated Syria's protesters by giving them less airtime or credence than demonstrators in other Arab countries. Western governments, for their part, are wary of what might fill the vacuum if Mr Assad's regime fell. But if the protests persist, especially if they get bloodier, the momentum for radical change could quickly resume.

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Endgame in Cote d'Ivoire

Basement blues

France closes in on Laurent Gbagbo

MORE than four months after losing Cote d'Ivoire's presidential election, Laurent Gbagbo, the incumbent who had stubbornly refused to step down, was finally, as *The Economist* went to press, on the brink of accepting brutal reality. In the past ten days troops loyal to the winner, Alassane Ouattara, had swept through the country from north and west, capturing a string of towns, including the administrative capital, Yamoussoukro. By April 6th they had taken nearly all of the commercial capital, Abidjan, bar Mr Gbagbo's compound, where he was said to be holed up in a basement with his family and closest aides. Aided by French troops under the aegis of the UN, Mr Ouattara's fighters closed in, expecting Mr Gbagbo to surrender. "I'm not a kamikaze," he told a French television station. "I love life... I'm not looking for death. It's not my aim to die."

But still, after last-ditch negotiations with UN and French officials, he refused to sign a document acknowledging that the presidency had passed to Mr Ouattara, a former senior IMF man, whose victory had been certified by the UN, the African Union and other international bodies, which reckoned he had won the poll with 54% of the votes cast. Several African countries, including Angola, South Africa and Togo, were said to have offered Mr Gbagbo asylum. Yet, despite his protestations, it seemed he would rather die than accept electoral defeat. By April 7th the French, who had spearheaded the latest military and diplomatic efforts to oust him, were prepared to give him a little more time in the hope that he could be spirited away without being manhandled or killed.

Presuming that Mr Gbagbo, alive or dead, does go, Mr Ouattara will struggle to heal the nation's wounds so bloodily opened in the past ten days. The International Committee of the Red Cross reported that on March 29th some 800 people had been massacred in the western town of Douekoue. Other observers later queried the figure, but it seemed certain that at least 200 people had perished; many other atrocities were reported to have been carried out by both sides as the pro-Ouattara troops advanced. And it seemed that the main perpetrators of the Douekoue horror were members of a tribe backing Mr Ouattara that sought to inflict retribution on an ethnic group deemed loyal to Mr Gbagbo.

In Abidjan itself most of the inhabitants cowered in their houses, too frightened to venture out for the past several days, even as many ran out of food and water, while gunfire rattled across the city by day and night. Scores of bodies were said to lie in the streets, victims of soldiers and militias on both sides. UN peacekeepers were coming under constant attack from Mr Gbagbo's forces.

The military breakthrough had occurred after the UN called for extra French support to counter Mr Gbagbo's heavy weapons and to beef up the peacekeeping force, bringing the French contingent to 1,650. French helicopter gunships blasted pro-Gbagbo military camps and secured the airport, letting Mr Ouattara's forces launch what they hoped would be a final push on April 4th.

Presuming that Mr Ouattara will soon take over, his task will be daunting. Hundreds of thousands of people have fled their homes, fearing civil strife and reprisals. As Mr Gbagbo's army crumbled, his xenophobic youth supporters, known as the Young Patriots, were handed weapons and ran amok; they will have to be rounded up. But Mr Ouattara will have to restrain his own fighters, many of them Muslims from the north, from taking revenge on Mr Gbagbo's men, most of them Christians from the south and west.

Mr Ouattara is not short of foreign friends. The UN peacekeepers protected the hotel in Abidjan where he has been penned up for months. They smuggled him in and out of the country to try and sell their case to wavering African nations. The governments of Nigeria, Burkina Faso and Senegal probably pitched in with weapons and advice, if not actual soldiers, for the past week's offensive. France has plainly reasserted its influence, but Mr Ouattara must ensure he does not seem to be in the old colonial power's pocket.

The West African central bank will ease its restrictions to let the banking system revive. The European Union and America will lift economic sanctions and let Cote d'Ivoire's cocoa back on to the market. And Mr Ouattara will have to convince the 46% of voters who failed to endorse him that he will not just favour his own followers. He may even repeat his offer of a government of national unity-without Mr Gbagbo.

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Better late than never

"EACH candidate has three minutes," the moderator at Nigeria's main presidential election debate said on state television, with a straight face. Wearing his trademark fedora, Goodluck Jonathan, the incumbent, made his pitch to voters and answered questions without a single interruption. That is because his challengers had chosen to boycott the event, in protest against the format he had imposed. Many viewers saw his lonely appearance as yet another sign that the president and his party are in trouble.

The ruling People's Democratic Party (PDP) is facing its first competitive elections since taking power when democracy was restored in 1999 after a long spell of military rule. Mr Jonathan, who assumed office a year ago following the death of his predecessor, may have to compete in a run-off against his main opponent, Muhammadu Buhari, a former military ruler and ex-PDP member. Even if Mr Jonathan wins in the first round on April 16th (by getting at least 50% of the total vote plus 25% or more in at least two-thirds of the federal states) his party is likely to lose ground. It is expected to do badly in parliamentary polls on April 9th and governors' contests on April 23rd. That would mark a shift in Nigerian power, away from the PDP.

Many voters are disgusted with the rapaciousness of Africa's biggest political party. Much of the country's $400 billion in oil revenues earned during its time in office has ended up in the hands of a small elite. Only a sixth of the population of 150m lives on more than $2 a day. Critics sneeringly call the PDP the "poverty development party" and say it has "more skeletons in its cupboards than rested souls at Lagos's Atan Cemetery".

The PDP has little by way of ideology and functions as a giant, smoke-filled back room where members of the elite dish out the goods. Imagine a country run by a malevolent Rotary Club. Wole Soyinka, a Nobel laureate for literature, calls the PDP a coalition of the blind, corrupt and immoral. It has managed to stay in power by rigging elections. A former PDP grandee, Donald Duke, even explained how in a public lecture. State governors, who appoint election officers, play a decisive role. But this time the usual tricks may not be enough.

During his short tenure, Mr Jonathan has won plaudits for trying to deal with chronic electricity shortages. But many in the party think him weak and dull-an accidental leader. That has stirred up old factional feelings. Mr Buhari and other former PDP bigwigs see a chance to displace him. Their ambitions were stoked when the president reneged on a deal to rotate power among Nigeria's regions. Some defected to opposition parties, as did a number of parliamentary candidates and potential governors.

Squabbling among the elite might have put ordinary Nigerians off voting, as in the past. But a single, brave decision by Mr Jonathan last summer changed the game. Before saying whether or not he would run for re-election, he asked Attahiru

Jega, a respected academic and campaigner, to lead the electoral commission, usually at the heart of the PDP's rigging operation.

Mr Jega drew up a new voter register, removing names such as Nelson Mandela and Bob Marley. A village in Kaduna state that four years ago reported 50,000 votes for the PDP was shown to contain only 4,000 voters. He also had ballot papers printed abroad to limit their supply (Nigeria's printing presses are notoriously busy at election time), though a late delivery forced a one-week delay in all three polls.

Crucially, the former academic decreed a switch to the "open secret ballot" system: voters are asked to register at polling stations on election day and encouraged to stay there until results are posted locally, to verify them and to prevent multiple voting. The system was used in Nigeria in 1993 in a poll seen as relatively free and fair.

Such changes have delighted the voters. A dozen years of PDP misrule has not destroyed their belief in democracy; many exude hope. "We have anger but we have even more hope," says a cook sharpening knives. Millions are flocking to opposition rallies, perhaps creating false expectations that the PDP may actually lose.

The elections will still be far from perfect. Parts of the old rigging machine remain in place-and defectors from the PDP have taken their skills in trickery over to the other side. Estimates put the number of ghost voters at a mere 10-15% this time. But powerful governors still have strings to pull and recent manoeuvring by the PDP has been deft.

On the brink of disintegration late last year, the party regained some strength by signalling a willingness to welcome defectors back. The president also promised not to run again in four years, hoping to appease his opponents. Traditional patronage networks have been reinforced with state funds. Some $150m disappeared from a government account for surplus oil revenues. Rumours abound of oil concessions being exchanged for blocks of votes.

Still, the PDP's uncontested dominance of Nigerian politics is over. A spell has been broken. The party will probably remain first among equals for some time but voters should stand a better chance of being offered a real choice.

Proper political competition should benefit business and bring about better economic management in years to come. Mr Jonathan, an abler leader than many in his own party give him credit for, is likely to try to finish his power-sector reforms. If he manages, the PDP might even ask him to stand for another term, since other leaders have never contested an election they were not sure to win.

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Russia's presidency

The Putin v Medvedev tandem

New signs of tension at the top as Russia's 2012 presidential election looms

IT ALL seemed so clear a year ago. Dmitry Medvedev, Russia's president, tweeted and blogged about modernisation, while Vladimir Putin, Russia's prime minister and the other half of the tandem, pulled the strings, drove anything that moved and posed for cameras as he prepared to stroll back into the Kremlin in 2012, this time for two six-year terms.

But in recent weeks the picture has become hazier. Mr Putin's return to the Kremlin is looking less certain, and Russia's political system seems even less stable. The differences between the two men are mainly stylistic, but the signs of a political struggle are real. Even as Mr Putin keeps his cards close to his chest, Mr Medvedev is displaying an urge to stay on as president. Over the past few weeks he has taken to sporting a khaki rollneck and a bomber jacket emblazoned with the words "Russia's Commander-in-Chief", perhaps to remind people of his status.

He wore this garb on March 21st speaking about Libya. Less than 24 hours after Mr Putin had given his "private" opinion that UN intervention (which Russia did not veto in the Security Council) was "flawed and inadequate" and reminded him (and Colonel Muammar Qaddafi) of a "medieval crusade", Mr Medvedev rebuked him. It was no good, said the president, "flapping the wings now" and "under no circumstances is it acceptable to use expressions...such as 'crusades' and so on."

Even more significant, Mr Medvedev's team managed to reverse the coverage of Libya on Channel One, Russia's main television channel, which is controlled by Mr Putin's friends. It apparently took just one telephone call from the Kremlin to switch the tone from vehemently anti-Western to broadly neutral.

And this was just a start. On March 30th Mr Medvedev ordered government ministers to vacate their seats on the boards of state firms. He set a deadline of October and even named names. They included Igor Sechin, chairman of Rosneft, Russia's state oil company, and one of Mr Putin's most trusted deputy prime ministers, in charge of energy.

Mr Sechin is seen as the main force behind the attack on Yukos and Mikhail Khodorkovsky. His appointment as Rosneft's chairman in 2004 sealed the transfer of Yukos's assets. Yet it is unclear whether Mr Medvedev's order marks an offensive against Mr Putin's state capitalism or is a cosmetic measure to make it look more civilised. Much will depend on how the Kremlin now manages state firms and who replaces Mr Sechin and other ministers.

A final, if more indirect, sign of political infighting is a reshuffling of some assets (roads, television, energy) into the hands of Mr Putin's friends and acquaintances. The timing of this political and economic activity is almost certainly linked to the decision about who will rule after the presidential election in 2012.

Polling day itself will have little to do with the selection of Russia's next president, which will as usual take place behind closed doors over the next few months. Mr Medvedev has two options for staying on. His first and surely preferred choice is to persuade Mr Putin that letting him serve another term would suit everybody in their clan. One of Mr Medvedev's selling points is the backing of most of Russia's corporate elite and good relations with the West, which will guarantee the safety and legitimacy of most business.

His second option is to persuade Mr Putin to step down, or to sack him. This would amount to a palace coup. Nothing in Mr Medvedev's behaviour so far suggests that he is capable of such a step. But it cannot be ruled out: Russia does spring surprises. Some in the elite argue that, although Mr Medvedev lacks his own power base, he has the most important resource of all: the seal and signature of the president. Others are more sceptical. As a political joke doing the rounds in Moscow puts it, "the Kremlin is divided into a Putin and a Medvedev camp. The only question is which camp Mr Medvedev will join."

Since the Kremlin has eliminated most public political discourse, few people know what really goes on inside the government. But it looks as if the period of political "stability" in Russia that marked Mr Putin's years in power is over. Russia has now entered a period of turbulence. Whether the rivalry between Mr Putin and Mr Medvedev is real or imagined, it has started to resonate with more serious swings in the public's mood.

The elite and an increasing number of ordinary Russians seem to be getting fed up with Mr Putin and his crony capitalism. His stunts no longer seem to entertain the public. Opinion polls show a drop in both Mr Putin's and Mr Medvedev's ratings. An increasing number of Russians say that their country is moving in the wrong direction. Celebrities, artists and journalists who, only a couple of years ago, looked down on the political opposition as "losers" are now critical of Mr Putin. "It is no longer fashionable to like Putin," one celebrity remarks.

Some analysts are starting to press alarm buttons. A report by the Centre for Strategic Research, a think-tank close to the government, says that people's mistrust of the system as a whole is growing; that the Kremlin is losing legitimacy; and that a political crisis in Russia is now under way. To the report's authors it has echoes of the late 1980s, when delegitimisation of state power was one factor that helped to bring on the collapse of the Soviet Union.

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Spain's prime minister

Exit plan

The Socialists contemplate who would be their best new leader

WOULD Spain's Socialists prefer their leader to be a battle-scarred fox or a bright young woman? That is their choice after the announcement by Jose Luis Rodriguez Zapatero on April 2nd that he would not run for a third term next year. The vulpine character is the deputy prime minister, Alfredo Perez Rubalcaba. Spain's potential first female prime minister is the defence minister, Carme Chacon.

The Socialists may in truth need more than either can provide. Mr Zapatero's legacy is a deeply unpopular party overseeing a torpid economy with 20% unemployment. In the polls the Socialists are 16 points behind the conservative opposition People's Party (PP) of Mariano Rajoy. Much would have to go right to close such a gap. With a record 4.33m jobless in March and annual GDP growth at just 0.6%, that looks highly unlikely.

But the choice will still matter. Party members who vote this summer will be picking the future opposition leader in Spain's largely two-party system. If the new leader cuts deeply enough into the PP's lead, Mr Rajoy may not win an absolute majority. In Spain, where nationalists from Catalonia or the Basque Country often hold the balance of power, that makes a difference. Controlling regional spending, in Catalonia or elsewhere, will be a huge task for the next government.

The energetic and wily Mr Rubalcaba is the more obvious choice. His many jobs include interior minister and party spokesman. He is highly visible. He is popular, especially among Socialists fed up with Mr Zapatero. A February poll found that the 59-year-old Mr Rubalcaba could slice the PP lead to just 4%. That could be enough to leave Mr Rajoy as many as six seats short of an absolute majority.

But Mr Rubalcaba has some blots on his record. He cut his teeth in Felipe Gonzalez's Socialist government in the 1990s. That meant defending a government corroded by corruption and mired in the fallout from a dirty war against the Basque separatists ETA. Almost two decades on, ETA is again a problem. During a ceasefire in 2006 someone from Mr

Rubalcaba's interior ministry tipped off some ETA men who were about to be arrested. This attempt at easing peace talks may yet see officials accused of collaborating with ETA. The PP is already using it to attack Mr Rubalcaba.

Ms Chacon would be a fresher face. "She has more of a future than a past," commented one party heavyweight. In fact, the 40-year-old has run two ministries: housing and defence. Spaniards like their new prime ministers young: the most recent three were all in their early 40s. One poll has Ms Chacon as the highest-rated minister, ahead of Mr Rubalcaba. Her popularity owes much to the impact of a pregnant woman barking orders at a parade-ground full of soldiers. She would rally the female vote. And she is a big contrast to 56-year-old Mr Rajoy.

Mr Zapatero's decision to go may revive a moribund Socialist vote on May 22nd, when Spain holds elections for 13 regional parliaments and all the town halls. But what nobody knows is how different a party led by Mr Rubalcaba or Ms Chacon would be from Mr Zapatero's. On current evidence, the change will be slight. The voters will doubtless bear that in mind.

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Germany's Free Democrats

Enter Rosler

Will the new face for the Free Democrats be tough enough?

It's a long way from Vietnam

PHILIPP RÃ–SLER, a mild-mannered, Vietnamese-born doctor, is taking on one of Germany's toughest jobs: to rescue the liberal Free Democratic Party (FDP). Its popularity has plunged since it won a record 15% of the vote in the 2009 federal election and joined the coalition as junior partner to Angela Merkel's Christian Democratic Union (CDU). In regional elections last month, it was ejected from two state legislatures and barely scraped in to the third. Blame has fallen mainly on Guido Westerwelle, the foreign minister, who has dominated the party for the past decade. He will not run for re-election as party chairman at a convention in May. On April 5th the FDP leadership endorsed Dr Rosler, the health minister, as his successor.

Mr Westerwelle's exit was surely necessary, but it may not be enough to restore his party's fortunes. He wants to continue as foreign minister even though he has shown little flair for diplomacy. Dr Rosler would find his job easier if he could switch from health to the economy ministry, which deals with the FDP's core issues. But Rainer Bruderle has fought hard to retain his job. Teamwork will replace Mr Westerwelle's one-man rule. *Spiegel Online* called the shake-up the "gentlest

putsch" in history. Yet Hans-Dietrich Genscher, an august former FDP foreign minister, has hinted that it did not go far enough.

Dr Rosler, who is just 38, belongs to a younger generation of leaders nurtured by Mr Westerwelle but distinct in style and emphasis. Their mentor is a shrill crusader for lower taxes. Dr Rosler is more upbeat and inclusive. This year he and two young colleagues published an "appeal to all liberals" styling the FDP as the party for "all who want to make something of their lives". Do not focus too narrowly on single issues (ie, tax cuts) or voter groups (ie, the rich), they urged. Embrace civil liberties, social liberalism and "ecological responsibility".

Dr Rosler will try to steer the party this way. Christian Lindner, a co-author, is in charge of rewriting the FDP's programme. But Mr Bruderle warned against the trio's "whisper liberalism". With the CDU, Social Democrats and Greens all crowding into the squishy centre, the FDP might fare better on flintier ground. The party need not choose between Dr Rosler's vision and Mr Bruderle's, says Otto Fricke, an FDP member of the Bundestag. "The combination is so important."

Some liberals wonder whether Dr Rosler, who will also be vice-chancellor, is tough enough to remake the party (or to stand up to Mrs Merkel and Horst Seehofer, leader of the CDU's Bavarian sister party, the Christian Social Union). No one doubted Mr Westerwelle's killer instinct. Dr Rosler says he wants to leave politics by the time he turns 45.

The liberals will have little chance to shine in the coalition, which still has more than two years to run. Mrs Merkel has modest ambitions and scant money to spare. The FDP was once the kingmaker of German politics. It would be surprising if the amiable Dr Rosler crowns the next chancellor.

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Muslims in France

On a mat and a prayer

A new debate reflects strains over the place of Islam in France

Wall-to-wall carpeting

WELL before the start of Friday prayers, rolls of mats tied with string are waiting propped against the kerb. Perched on a plastic table on the pavement outside the Al-Fath mosque, a loudspeaker is ready to broadcast prayers to the street. As the faithful stream in from the Metro station in this grim stretch of Paris's 18th *arrondissement*, past shops selling Algerian football shirts and green-and-gold woven cloth from Togo, policemen guard roads that have been closed to traffic. When

the prayers begin, the streets are packed with hundreds of worshippers kneeling on mats. The scene has become a symbol in a heated debate over efforts to reconcile an assertive Islam with France's secular tradition.

Of 2,000 mosques and prayer rooms in France, weekly prayers overflow on to the streets in only a dozen places, mostly in Paris and Marseille. Home to Europe's biggest Muslim minority (some 5m), France objects because of its strict secularism or *laicite*. This doctrine bars religion from public life. In 2004 cross-party backing pushed through a law that outlaws the headscarf (and other religious symbols) in public schools. Next week a ban on the face-covering veil comes into force.

President Nicolas Sarkozy's UMP party has raised the temperature by holding a controversial debate on *laicite*. It wants 26 measures to clarify the application of the 1905 law. These include stopping pupils from skipping classes on compulsory bits of the curriculum (such as the Holocaust) or patients refusing on religious grounds to see a male doctor. The party also wants foreign donors to declare gifts to mosques in France, and to bring in public loan guarantees or long-term leases for mosque-building, to get worshippers off the streets.

Jean-Francois Cope, the UMP leader, says he is responding to genuine problems, for teachers or doctors, which the snug Paris elite underestimates. He invited representatives of other religions to the debate. He wants to reaffirm secular principles to send a message to hard-line Islamists. Others, however, see the debate as an attempt to stigmatise Muslims for electoral ends, since the problems touch only Islam. Mohammed Moussaoui, head of the French Council for the Muslim Faith, refused to join the UMP debate. Even Francois Fillon, the prime minister, boycotted it.

The UMP is divided over how far to press the issue. Many would prefer to talk of more urgent matters like jobs. Others say they cannot leave the field to Marine Le Pen, the far-right National Front leader, who has compared street prayers to the Nazi occupation. Several polls suggest she could beat Mr Sarkozy in the first round of next year's presidential election. Mr Sarkozy backed the debate and seems happy to keep it in the headlines. Earlier this year he said multiculturalism had "failed", that immigrants needed to "melt" into French society, and that "we do not want ostentatious prayers in the street in France."

Back in the 18th *arrondissement*, not far from the cobbled streets of Montmartre, France's secular principles seem neater in theory than in practice. Each week, policemen allow the streets to be shut for outdoor prayers. They stand by as mosque officials put up plastic tape to separate pedestrians from worshippers. Some residents see this as a provocation. Daniel Vaillant, the local Socialist mayor, calls it pragmatic. "There are worse abuses of the street here, such as prostitution or drug-dealing," he says. "I'm against prayers in the street; but I'm also against banning them without providing a solution."

The town hall sees street prayers as a temporary problem of capacity. Two local mosques draw worshippers from afar, often new arrivals to France. They come to pray and pick up supplies in the many ethnic stores, offering such wares as raw goats' feet, mobile-phone cards and Afro-hair extensions. The local government and the city are spending euro22m ($32m) to build a new Islamic cultural centre on two sites, with space for concerts and exhibitions. Muslim associations will use private finance to buy prayer rooms, for euro6m.

To purists, this is an outright breach of *laicite*. To the town hall, it is the best hope of resolving the problem peacefully, even though one mosque has yet to sign up to the plan. As in other French towns, where the authorities organise sites for ritual slaughter during Eid or create Muslim burial spaces in public cemeteries, local flexibility seems to triumph over rigid national theory. When the new Islamic centres are ready in a year or two, Mr Vaillant promises, "there won't be any more prayers in the street, and they will give the public space back to citizens."

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Turkish foreign policy

Erdogan's lament

What lies behind Turkey's ambivalence over NATO's operation in Libya

A SPATE of anti-Turkish protests has swept rebel-controlled parts of Libya. In Benghazi hundreds of worshippers chanted anti-Turkish slogans after Friday prayers. "Take your beloved Qaddafi and allow us to be armed," read one placard. On April 6th over 100 people gathered outside the Turkish consulate in Benghazi to demand the removal of the Turkish flag. "Revolutionaries want to arm," they sang.

Their frustration might be shared by Turkey's more hawkish NATO allies. Turkey's mildly Islamist AK government is rigidly against plans to arm Libyan rebels who might bring about the removal of Colonel Muammar Qaddafi by force. Turkey's foreign minister, Ahmet Davutoglu, has been trying to broker a truce even while telling the colonel to step down and allow the establishment of a transition government. So far, no deal. But the dogged Mr Davutoglu refuses to give up.

Since the uprising in Libya began, Turkey (caught off guard like others) has been squeamish about foreign intervention. The prime minister, Recep Tayyip Erdogan, even called the idea "absurd". He was offended not to be invited to the first Paris conference to discuss Libya (Mr Davutoglu went to the second, in London). Turkish stonewalling has revived old questions about whether Turkey is turning its back on the West. It was only after France and Britain began pounding Libyan air defences that Turkey belatedly backed NATO's plans to create a no-fly zone.

The Turks have since dispatched four frigates, one submarine and an extra warship to Libya. This week a Turkish ferry-turned-hospital took hundreds of Libyans wounded in the fighting off for treatment in Turkey. Most were from the rebel camp. The government has put a brave face on its U-turn, insisting that it moved only because NATO had taken the lead. More likely it feared being left out. This would have put a dent in Turkish claims to be the regional superpower. Yet Turkey remains fiercely opposed to expanding NATO's role in Libya, saying it should be limited to protecting civilians.

Turkey's wobbles have less to do with Mr Erdogan's purported anti-Western feelings than with pragmatism and a dollop of foresight. Some 20,000 Turks were working in Libya (most have now been repatriated). The country has around $15 billion-worth of outstanding contracts that may be scrapped if the rebels win. As Lale Kemal, an Ankara-based defence expert, notes, "Turkey wants to keep its options open in Libya in case Qaddafi manages to hang on to its leadership position." The government is studiously vague about the possibility. As Mr Erdogan has repeatedly warned, Libya may be on the verge of a full-blown civil war. The more NATO gets sucked in, the greater the risk that civilians will die in its operations.

With a general election due on June 12th, Mr Erdogan does not want Libyan blood on his hands through collusion with the West. His pious electoral base remains ambivalent about Turkish support for American operations in Iraq and Afghanistan. It does not help that American diplomatic cables just published by WikiLeaks have shown that Turkey's Incirlik airbase was used by the CIA to move Muslim detainees under Mr Erdogan's watch.

Meanwhile, a fresh crisis is brewing as anti-government protests in Syria continue. Mr Erdogan has repeatedly urged President Bashar Assad to relax his grip, but to no avail. And what if Syria's restive Kurds were to join hands with the protesters and be shot at by Mr Assad's men? Thousands might cross the border into Turkey, already home to some 14m Kurds. Many are sympathetic to the outlawed Kurdistan Workers' Party (PKK), which has been waging a 26-year-long battle against Turkish forces. The last thing Turkey needs is more rebellious Kurds.

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Hungary's new constitution

Goulash soup

The new constitution is being rushed through with limited consultation

Orban consults his supporters

THE Hungarian constitution needs renewing. Today's document is a legal mishmash, part dating from the communist era, part from 1990 when the Soviet block collapsed and the rest from last year, when the right-wing Fidesz party won a two-thirds majority. But Viktor Orban, the Fidesz prime minister, has a problem.

A constitution ought to be above political horse-trading. Input from all parties should give it greater legitimacy, making it harder to alter. Yet over the past year the government has marginalised and alienated the opposition. Formerly independent institutions have been scrapped, hobbled or taken over by placemen. New bodies such as a media council have appeared-and too often, their members are all Fidesz nominees.

The Socialists, the green-liberal LMP and the far-right Jobbik are all demanding more consultation and a referendum. But since the draft of the constitution has been under discussion since last summer, the government has given lawmakers just a month's debate. It will be voted through on April 18th. President Pal Schmitt, an emollient Fidesz loyalist, is expected to sign it on April 25th.

Rather than negotiate with the opposition, the government has distributed questionnaires about the constitution to 8m voters. It has promised to take note of their answers. Fidesz's two-thirds majority gives it the right to change the constitution, says Jozsef Szajer, a Fidesz MEP who partly drafted the new version on his iPad. Moreover, he adds, referendums on constitutional matters are not permitted.

The Socialists and the LMP (but not Jobbik) are boycotting the process. A gross abnegation of responsibility to their voters, says Mr Szajer. But Fidesz is reaping what it sowed: when Ferenc Gyurcsany, the former Socialist prime minister, spoke in parliament, Fidesz MPs walked out. The government wanted the LMP to take part in the drafting process, insists Tamas Boros, of Policy Solutions, a think-tank, as that would have given the new constitution more legitimacy.

The document is a mixed bag of history and modernity. Provisions on Christianity, the holy crown, connections to ethnic Hungarians living abroad, the definition of marriage as a union of a man and a woman and repeated references to Hungary's historical constitution are all designed to keep the right happy. Greens will welcome a commitment to preserve the environment and biodiversity. Human trafficking is outlawed. Public debt will be limited to 50% of GDP. The name Hungary replaces the Hungarian Republic.

The draft constitution draws on the European Union's charter of fundamental rights. But unlike the charter, it does not specifically outlaw discrimination on grounds of sexual orientation. Mr Szajer says that this is covered by the phrase "any

other circumstance whatsoever", but gays and liberals are unhappy. Neighbouring countries also fret that references to ethnic Hungarians abroad may look irredentist and could open the way for those with dual citizenship to get the vote.

Earlier this year Tibor Navracsics, the deputy prime minister, asked the Venice Commission, the Council of Europe's advisory body, for an opinion. Its reply was that the government had shown a lack of transparency, failed to consult adequately with the public or the opposition and rushed the process. But Fidesz is set on pushing the constitution through.

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Italy's economy

The euro's Achilles heel

Sounder public finances, but a weaker economy: that is Italy today

ITALY'S public debt is the sleeping dog of the euro zone's crisis. So far the markets have mostly let it lie. Although in 2010 it rose by three points, to 119% of GDP, Silvio Berlusconi's finance minister, Giulio Tremonti, held the budget deficit to an impressive 4.6%, well below his target of 5%. His firm hand has saved Italy from being lumped with the euro-zone's PIGS: Portugal, which has just asked for a bail out (see article), Ireland, Greece and Spain. "With our feet on the ground, one step after another, the Italians and Italy are going in the right direction," Mr Tremonti has said.

He was speaking after figures showed faster-than-expected growth in 2010. Yet the revised number was not reassuring. After shrinking by 5.2% in 2009, GDP inched back to 1.3% growth last year. But the euro zone as a whole grew by 1.7%, with Germany alone growing by almost 4%. Mr Tremonti is unabashed. Speaking to the Ambrosetti financial forum on April 2nd, he conceded that Italy would grow slightly more slowly than Britain and France this year, but added that were he running as big a budget deficit as these two, it would be growing faster.

In fact the euro crisis has again laid bare the structural weaknesses in Italy's economy. When euro-zone GDP falls, Italy's falls by more; when it rises, Italy's rises by less (see chart). The country has too few big firms. It is not generating jobs for the young: more than a fifth of the country's 15- to 29-year-olds neither work nor study. Too few women have jobs (in the euro zone only Malta has a lower female-participation rate). The south remains a huge drag: in broad terms, GDP in the north may grow by as much as 3% a year, but in the south it shrinks by 2%, pulling the average down. Youth unemployment in parts of the south is 40%. And, as the Bank of Italy's governor, Mario Draghi, has noted, Italian entrepreneurs have to cope with an unusually high level of organised crime. Police operations show that the 'Ndrangheta from Calabria has burrowed deep into the economic fabric of the north.

Stefano Manzocchi, an economics professor at LUISS University in Rome, says the government is "looking at a rather flattering still photograph, instead of seeing the film. Italy is a rich country, but one which is not showing it can keep up the flow of income that feeds its wealth. What is really missing is a vision of what this country could be in ten or 15 years' time." There is little chance of such a vision emerging soon. Mr Berlusconi has just gone on trial in the last of the cases in which he is a defendant (see article). He plans to spend a day a week in court; more time will doubtless be spent with his lawyers.

The employers' federation, Confindustria, frets that higher oil prices, rising interest rates and a strong euro could derail the recovery. Giving evidence to a parliamentary committee, its director-general, Giampaolo Galli, appealed for policies to boost competitiveness. The risk if nothing happens is that Mr Tremonti's good work on the public finances could be undone.

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Silvio Berlusconi's trials

Opening the rubygates

The prime minister's latest trial may not be the most dangerous for him

IT COULD hardly have begun more discreetly. A trial heralded as the most sensational of any brought against Italy's prime minister, Silvio Berlusconi, opened on April 6th at a hearing lasting just nine minutes and 50 seconds. It was promptly adjourned until May 31st.

Mr Berlusconi, who was not in court, is accused of two offences: paying an underage prostitute and exploiting his position to cover it up. He denies any wrongdoing. He will have been heartened by what little emerged at the first hearing. The alleged prostitute is Karima el-Mahroug, known as "Ruby the heart-stealer", the runaway daughter of a Moroccan immigrant. She was under 18, the minimum age for prostitution in Italy, when she visited Mr Berlusconi's villa outside

Milan. Her lawyer told the court she would not be joining herself to the case or seeking damages; she denies that she was a prostitute and that she had sex with the 74-year-old prime minister.

That was not the only good news for Mr Berlusconi. The day before, the Chamber of Deputies, the 630-seat lower house of parliament, voted by a majority of 12 to ask the constitutional court to block the proceedings. Mr Berlusconi's supporters, who won two extra deputies in the vote, maintain that prosecutors ignored a ruling by parliament that the case should have been dealt with by a special court. His opponents say jurisdiction is a matter for judges; they note also that the special court would have needed parliamentary approval to proceed.

The adjournment may give the constitutional court time to decide. But it will also give the judges and prosecutors in Milan more time to focus on the case that Mr Berlusconi is said to fear most: one in which he denies bribing a British lawyer, David Mills, to withhold testimony that could have led to his conviction in an earlier trial. Since Mr Mills was found guilty (although his conviction was later quashed on a technicality), there is a serious risk that the prime minister will be too-and that the proceedings against him can be completed before they are timed out by a statute of limitations.

This, say critics, is why his government has resurrected a bill to put different time limits on legal proceedings. It is ostensibly meant to ginger up Italy's sluggish courts. Partly drafted by Mr Berlusconi's lawyer, the bill has been approved by the Senate, but is yet to be passed by the Chamber. The body that oversees the judiciary says it could mean that between 10% and 40% of the defendants currently on trial would walk free. Mr Berlusconi's justice minister says the true figure is 1%.

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Charlemagne

Choosing new friends

The European Union is struggling to help Arab revolutionaries

IN ITS desire to surround itself with a "ring of friends", Europe never really asked if it was rubbing shoulders with the right sort of chums. From Algeria to Belarus, it has been encircled for the most part by police states. The Arab revolts are belatedly overturning old assumptions. Take France: the same Rafale fighter jets it tried to sell to Colonel Muammar Qaddafi are now being sent into action against him.

The European Union, too, is revising its "neighbourhood policy" in the hope that its claim to be promoting economic and political reform in return for greater integration with the EU will no longer seem such a mockery. For years European officials negotiated action plans with countries and wrote reports bemoaning their lack of democracy, yet kept paying autocrats billions of euros. Until recently the EU was negotiating "deep and comprehensive" free-trade agreements with just two neighbours: Ukraine, even though it has been backsliding on civil liberties, and Libya.

Europe's neighbourhood policy is a sort of enlargement-lite. It offers countries on the EU's rim the prospect of integration short of full membership-"everything but institutions" went the early slogan. It was born from a wish to reassure Ukraine that it would not be cut off after the admission of eight ex-communist states (plus Malta and Cyprus) to the EU in 2004. But it was soon expanded to include other new neighbours (Belarus and Moldova), older Mediterranean neighbours and, for good measure, the Caucasus (Armenia, Azerbaijan and Georgia).

It has not all been cynical. To the east, the reforming government of Moldova is being rewarded with generous aid. Meanwhile, the EU has frozen assets and restricted visas for Belarus's leaders after they rigged elections and suppressed protests. But in the south the promotion of democracy and the rule of law has been a fiction. As one Eurocrat puts it, "they pretended to implement the human rights commitment. We pretended to open up our programmes and policies."

Last month the European Commission rushed out a revised Mediterranean policy insisting it would not be "a passive spectator". Next month it will publish a more comprehensive review, including eastern neighbours. For Stefan Fule, one of the commissioners in charge, the first paper tried to answer "the easy question": how to help Tunisia and Egypt after they had got rid of their dictators. The second will try to answer the harder questions: what to do about countries that have liberalised only partly (eg, Morocco and Jordan) or hardly at all (eg, Syria and Algeria).

The answer in both cases is to offer "more for more": more economic benefits for more democracy. As Carl Bildt, Sweden's foreign minister, puts it, "the age of more for nothing, or even more for less is over." The EU's main offering involves three Ms: money, access to markets and mobility. This all sounds good, except that there is so little to it. Money? At times of austerity there is no more for foreign-policy aims. Markets? Many north African countries already enjoy free trade in industrial goods, and the southern Europeans want to restrict some agricultural products. Mobility? With anti-immigrant parties gaining ground, few governments are ready to open up to north Africans.

The Brussels machinery will eventually find a bit more. It may rob Pedro in Colombia to pay for Boulos in Egypt (ahead of the next big budget negotiation, Pierre will not surrender French farm subsidies and Piotr will not give up Polish regional funds). Governments may issue multiple-entry visas for students and businessmen. And, faced with a serious loss of revenue from tourism, Egypt and Tunisia urgently want immediate cash, not long-term project aid and loans. Egypt has just asked for a quadrupling of its euro150m annual EU aid programme. Such figures are raising some worries that the neighbourhood policy, which already allocates twice as much money to southern neighbours as to eastern ones, may be further skewed.

It is tempting to draw a parallel between the fall of the Berlin Wall in 1989 and the Arab spring of 2011. But one big difference is that the ex-communist countries had a burning wish to "return" to Europe. Arab neighbours have no such ambition. And eastern neighbours, though eligible in theory, know the EU is not ready to expand beyond the Balkans. Without the lure of membership, the EU struggles to find effective foreign-policy tools.

Where does Europe's interest lie?

As with its past inability to shift Arab dictators, the EU will struggle to shape the outcome of the Arab spring. But it should try, not least because its actions in the south influence the east. The neighbourhood is where the EU has the greatest chance of having an impact. As a union, it may not have military power, but it has useful economic and political tools.

Some officials worry that the emphasis on promoting democracy will tie Europe's hands. What if Arab countries do not democratise? What if the Arab spring turns to winter? Europe will still have interests to pursue in energy security, fighting terrorism, managing migration and more. Such concerns are legitimate. But the Arab spring highlights another vital interest. The old Arab allies are falling; given the stability the EU wants, democracy offers a better hope of taking radical Islam.

Even without membership, the EU could offer reformers more in areas of particular interest like energy. Southern Europeans should allow freer trade: if they keep out Tunisian oranges, they must expect more Tunisian immigrants. The Union for the Mediterranean, a failed talking shop, needs to reform. Policies should be better tailored for each neighbour.

Europe cannot change geography, so it will have to deal with all the countries on its rim, democratic or autocratic. But in its circle of neighbours, it must always demonstrate that its best friends are the democrats.

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The NHS mess

A very big headache

The farrago over NHS reforms risks making the government look impetuous and incompetent rather than bold

A POLITICAL scientist, John Kingdon, once listed three elements needed for bold policy-making. The right political leaders must be in place; they must have the right plan; and-vitally-they must agree on a problem that needs fixing. The confusion surrounding the government's ambitious bid to reshape the National Health Service (NHS) offers ample evidence for the Kingdon thesis.

The Conservative-led government is in a bind over its proposals, which have run into opposition from health professionals and some Liberal Democrats (the Tories' coalition partners). On April 6th a grave-faced David Cameron, flanked by his Lib Dem deputy Nick Clegg and the Tory health secretary Andrew Lansley, announced a two-month "listening exercise", in which the government would seek suggestions for improving the plans.

The policy itself has proved predictably divisive since it was unveiled last summer. Though the individual changes are evolutionary, building on market-based reforms stretching back more than two decades, their cumulative impact and complexity stunned medical leaders. Sir David Nicholson, the health service's chief executive, joked that the package was so ambitious "you could probably see it from space". Yet the Conservatives fought the 2010 general election on a pledge to oppose further top-down reorganisations of the NHS, after years of disruptive management changes.

Mr Lansley's plan would abolish a whole tier of NHS management, known as Primary Care Trusts (PCTs), transferring control over 60% of the NHS budget to consortiums of GPs (family doctors). One underlying political goal is to hand hard decisions about the rationing of care to GPs, the most trusted part of the health service.

A second big plank of the Lansley reforms would extend the scope of competition within the NHS's internal market, launched in 1990 and expanded since to let private providers bid for work alongside state-run hospitals. Responding to

complaints from the health sector and voters' anxiety about "privatisation by the back door", the government has pledged changes to stop private companies "cherry-picking" the easiest or most profitable cases, leaving NHS hospitals the expensive conditions and the cost of training doctors. Further concessions could tweak the membership of the spending bodies to be run by GPs, to include other clinicians and perhaps elected representatives.

Know your enemy

Many in the NHS (not to mention many Tories) blame the mess on Mr Lansley, painting him as an arrogant technocrat, whose deep knowledge of the English health service led him to believe he could redesign its complex structures almost single-handedly. But the government's biggest headache is a failure to agree what problem the reforms are intended to fix.

At the 2010 election, the Conservatives promised to ring-fence the NHS budget. After years of high spending and some bold reforms under Labour (as well as much needless tinkering), public satisfaction with the NHS was at an all-time high as the coalition took office. Against that backdrop, says an NHS grandee, the incoming government "failed to articulate a case for radical change".

Now multiple cases are being made. The health service has been told to find pound20 billion ($33 billion) in efficiency savings by 2014-15, to offset rising costs from an ageing population and more expensive treatments. Mr Cameron stresses those cost pressures, saying the status quo is not sustainable. But officials also claim that lives would be saved by modernisation, and emphasise the benefits of greater patient choice and decentralisation.

Sceptics counter that decentralisation, patient choice and efficiency might yet clash: GPs are being asked to act as both patient advocates and gatekeepers to treatment. Many doctors might lack the expertise to control vast budgets; conflicts of interest loom. Most simply, it is not clear, says the grandee, "if the budget is a problem, why you would rip things up and put in place something experimental."

Many NHS leaders wish the new pause would last a long time, with Mr Lansley's changes being tested in nationwide pilots. But the government is in a hurry, fearing lingering NHS upheaval at the next election, probably in 2015. Staff are already leaving seemingly doomed PCTs.

Worst, the confusion builds on a sense of a government that is impetuous and inept, rather than bold. There have been other recent stumbles and half-retreats involving forestry privatisation and subsidies for poor pupils. What a mess.

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A new state pension

A simpler dotage

The government signals the end of means-testing for pensioners

IF THERE was such a thing as "Brownism", it was defined by tax credits. As chancellor of the exchequer and eventually prime minister, Gordon Brown aimed these means-tested benefits at low-income groups, including elderly people who only had the basic state pension-currently worth pound102 ($166) per week-to live on.

The pension credit, which tops this up to pound137, has helped to ease hardship among the old. But the coalition government says that it has eroded the incentive to put money aside for retirement. Savings are taken into account when eligibility for the tax credit is assessed; the prudent are often penalised. Ministers think the savings credit introduced by Mr Brown in part to address that glitch merely complicated the system.

On April 4th the government published proposals intended to rid the pensions system of this perverse incentive. Its biggest idea is for a higher basic state pension, estimated to be worth around pound155 per week by the time the policy is in place, which is likely to be 2015. There would no longer be a means-tested supplement.

Savers would be the main, but not sole winners. Many poor pensioners do not claim the tax credits to which they are entitled, partly because of the system's opacity. They too stand to benefit from the simpler arrangements. Less stringent rules for qualifying for the basic pension will help women, many of whom do not make enough contributions during their working lives to claim the full amount, usually because of taking time off to raise children.

The new system will be funded in part by the early abolition of the state second pension, an earnings-related scheme. Raising the state pension age to 66 for both men and women by 2020 will also save money.

To simplify Britain's messy state pensions in a way that rewards responsibility (David Cameron's favourite abstract noun) and pays for itself would be impressive. The plans have provoked muted criticism from the Labour opposition, which says the new regime might be less redistributive than its predecessor. But there are two aspects of the proposals that might yet provoke a bigger backlash.

The first is timing. The higher state pension will only go to new pensioners. So a two-tier system could suddenly emerge in which people only a few years apart in age are treated very differently. Transitional arrangements might have to be made to ease the discrepancy, but they could require the one thing that ministers strove to avoid in drawing up their plans: extra money.

The second controversial idea is to consult on the notion of creating an automatic link between life expectancy (rising fast) and the age at which the state pension can be claimed. This could see the pension age rise further. Ministers would notionally be spared the political burden of raising the threshold themselves, but cross voters might well blame them anyway.

Increasing longevity is not the only reason that the current pension arrangements look unsustainable. Britain had a weak culture of savings even before Mr Brown's fiddling; the take-up of private pensions is low and declining. Despite government plans to "nudge" employees into these schemes from 2012, the worry is that those habits are too entrenched to shift.

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Murder in Northern Ireland

No going back

A depressing terrorist attack-and a heartening response

Unity in death

THE murder of Ronan Kerr on April 2nd was especially resonant because of its location: near the County Tyrone town of Omagh, where in 1998 a bomb killed 29 people. That outrage, like the car bomb that murdered Mr Kerr, was the work of dissident republicans opposed to Northern Ireland's peace process. After Omagh, they went quiet; in the past few years they have been bombing and shooting more frequently, but haven't managed to kill a soldier or police officer for over two years.

Yet while the terrorists continue to use the old methods, the reaction to the killing of Mr Kerr-a constable with the Police Service of Northern Ireland (PSNI), and a Roman Catholic-was new. Whereas violence used to deepen divisions, this time the result was a display of political and communal unity even greater than after Omagh. Peter Robinson, Northern Ireland's unionist first minister and a hardline Protestant, broke with tradition by attending the funeral mass. For his part, Martin McGuinness of Sinn Fein-once a leader of the mainstream IRA, which during the "Troubles" killed 273 police officers, now the province's deputy first minister-brands the dissidents "traitors".

This week Mr McGuinness repeated his calls for more Catholics to join the police. Catholic recruits such as Mr Kerr have helped to transform policing in Northern Ireland: the profession was once overwhelmingly a Protestant preserve, but after a decade of affirmative action Catholics now make up 30 per cent of the PSNI's total strength of around 7,300. The PSNI has done for policing what the devolved Belfast administration, which combines unionist and republican ministers in coalition, has done for politics.

Unfortunately, that success has created a new vulnerability. Many of the new recruits live in or have links to areas that are Catholic or mixed, which makes it easier for terrorists to identify and target them. This they have done repeatedly, with the aim of deterring Catholics from enlisting.

The dissidents are organised into at least three tiny groups; it is not yet clear which committed the murder, though on April 6th a man was arrested in Scotland after an arms stash was discovered in Tyrone. Despite being subjected to constant surveillance, these groups have persuaded a small number of former IRA veterans to join them, thus gaining expertise in car bombs and booby traps. Britain's security service, MI5, has admitted underestimating the persistence of these throwbacks, and has stepped up its efforts to counter them. The PSNI's budget has been boosted to help it tackle the revived threat.

Experience suggests that the dissidents are unlikely to be defeated solely by a strengthened security apparatus, without a concomitant change in the climate of public opinion. With tragic irony, Mr Kerr's death might help: it provoked not just

powerful symbolism among politicians, but palpable anger on both sides of the community, sections of which have in the past been inclined to regard the dissidents as little more than a disruptive nuisance.

The killing was a reminder of the dissidents' nihilistic antipathy to politics and obtuse refusal to accept that the war is over. The reaction has shown that the peace process, though imperfect, is too robust for the murderers to reverse it.

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Social mobility

Not moving on up

The government wants to improve social mobility. Good luck

IT WAS brave-or perhaps foolhardy-of Nick Clegg to launch the government's strategy on social mobility without declaring his own leg-up on the ladder of success. On April 5th the Liberal Democrat leader and deputy prime minister called for (among other things) an end to a "who you know" culture, especially with regard to internships. It was promptly revealed that, as a teenager, privately educated Mr Clegg secured a placement with a Finnish bank, courtesy of his father's contacts.

Personal ironies aside, the document confirmed Britain's depressing failure to give children born into less privileged circumstances a fair chance of prospering in terms of status and income. The evidence suggests that intergenerational mobility has stagnated or declined slightly since the decades immediately after the second world war. Bright poor children are swiftly overtaken at school by dimmer rich ones-and have only a small chance of becoming rich adults. Only one child in nine from a low-income background reaches the top income quartile; almost half with parents in the top quartile remain there.

And Britain seems to do badly compared with others: studies that measure the relationship between the incomes of parents and children suggest it is stronger in Britain than in many other developed countries, ranking it just ahead of the United States and Brazil at the lower end of the mobility scale. (The Scandinavians cluster at the top-grist to the mill for those who believe more equal societies are more mobile. Yet Australia does fairly well, despite tolerating a wider range of incomes.)

But while the problem is real, the solutions outlined in the new strategy are uninspiring. Besides Mr Clegg's proposals on internships-he wants to end informal stints in Whitehall departments, and for businesses to advertise their placements and pay expenses-the government's ideas are mostly a list of existing policies: early intervention to stimulate the cognitive skills of poorer children; creating a "world-class education system"; welfare reform; better access to part-time degrees for those above student age.

More controversially, perhaps, the government is encouraging top universities to take the best students from poorly performing schools, even if their exam credentials are worse than other applicants'. Emboldened by experiments in Texas and California, ministers believes that such students will achieve good results, justifying the move. Other ideas include a "top-up" year for able but badly taught applicants to brush up on the skills needed for medicine and the sciences. (Anna Vignoles of the Institute of Education points out that the subject that makes most difference to social mobility is maths.)

At the heart of this and previous governments' efforts is a belief that the state can genuinely affect social mobility. Not everyone agrees. John Goldthorpe of Oxford University says the main factor behind social advancement in recent decades has been the "marked increase in managerial positions from the 1950s to the 1990s-there was simply more room at the top." He is sceptical about the effects of government strategies: "The structural situation in employment and the economy is what really drives things."

The government's progress is to be reviewed in a year by Alan Milburn, a former Labour cabinet minister and son of a poor single-parent household, whom Gordon Brown enlisted for a similar task. Homage to the goal of social mobility has

become a political ritual. The obstacles to a mobility crusade look daunting; the real results won't be known for a generation. A Sisyphean task perhaps-but worth a go all the same.

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The phone-hacking scandal

Red-faced all over

The Met has a long way to go to clear its name

MORE lurid developments in the phone-hacking scandal at the *News of the World* (*NotW*), Britain's best-selling Sunday paper, owned by Rupert Murdoch's News International. Two journalists were arrested on April 5th on suspicion of conspiring to intercept mobile-phone messages; both Neville Thurlbeck, the paper's chief reporter, and Ian Edmondson, an assistant editor sacked in January, deny wrongdoing and were released on bail. Theirs are the first arrests since Scotland Yard launched a new investigation into the matter in January. Its initial probe in 2006 led only to the brief imprisonment of one "rogue" reporter and a private investigator.

On the same day, Sienna Miller, an actress who thinks she was a victim of the paper's hyperactive newsgathering, won a court order making her mobile-phone company provide third-party data to help determine whether she is entitled to damages. That should put wind in the sails of the many other public figures who suspect they were targets.

In a third twist, Keir Starmer, the director of public prosecutions, attacked the Metropolitan Police for trying to shift blame for its original, tame inquiry to the Crown Prosecution Service (CPS). John Yates, the officer in charge of that probe and now the Met's acting deputy commissioner, told two parliamentary committees in March that advice from the CPS had led the force to limit its investigation. Rubbish, said Mr Starmer.

What now? More hacks might be arrested and finger their bosses. (Andy Coulson, a former *NotW* editor and later David Cameron's communications chief, has always protested his innocence, as have other executives.) A government spokesman in the House of Lords, Lord Wallace of Saltaire, responded sympathetically to calls in that house on April 6th for a public inquiry once criminal investigations were complete, which might lead to tighter press regulation.

The coppers, however, are likely to feel the biggest fallout. For whatever reason, in the past officers were amazingly languid in following up leads, and notably failed to notify potential victims. Some might have been getting cash for tips from News International reporters; MPs want to know more.

None of this looks good for the police, already faced with the biggest changes in decades to their budget and operations. As it happens, some in government want one more tweak to the criminal-justice system, which could well involve changing the relationship between police and prosecutors. Mr Starmer will have done his service no harm this week.

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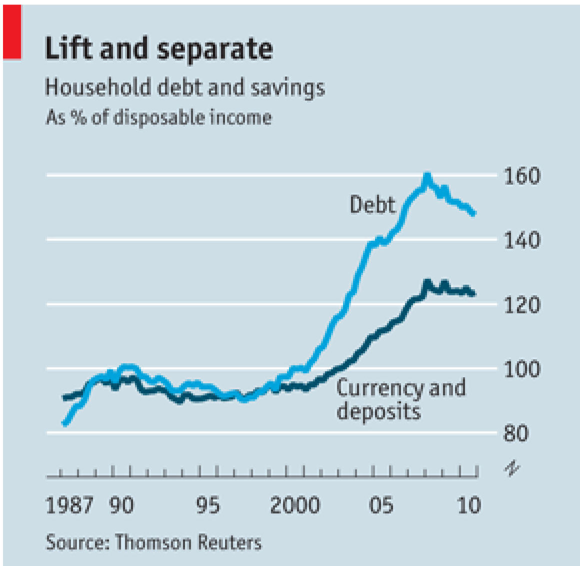
Interest rates and the economy

Careful now

Why even small interest-rates rises could have a big impact on consumers

IN NOVEMBER 2003 the Bank of England's monetary-policy committee (MPC) raised interest rates by 0.25%, the first increase in almost four years. With hindsight, it seems a straightforward decision. The economy was growing steadily, unemployment was low, house prices were shooting up and banks were lending freely. Yet at the time there was great anxiety about the change. The fear was that the increased burden of consumer debt would make even a small rise in interest rates bear down heavily on spending.



That worry is all the greater now, as the bank contemplates a similar move. As *The Economist* went to press on April 7th the MPC was expected to keep its benchmark rate at 0.5%-but a quarter-point increase seems likely as soon as next month. Debt is worse, relative to incomes, than in 2003 (see chart). Other pressures on household finances are greater now than then. Wage growth is sluggish; inflation is far higher; job prospects are poorer. And taxes are going up. In the circumstances, an increase in interest rates could easily provoke a damaging cutback in spending by nervous consumers. One big, if subtle, reason for concern is the stark polarisation between the cash-rich and the debt-poor.

If each household had an equal share of the cash and debt held by all, there would be little to worry about. True, personal debt is around 1.5 times post-tax income, which means that a percentage point increase in interest rates, if fully passed on by lenders, would take up 1.5% of income in higher debt-service costs. On the other hand, the income effects of interest-rate changes do not work in only one direction. Households in aggregate also have large cash deposits, and higher interest rates raise the income that is earned on them. The stock of cash is a bit smaller than the stock of debt, so the overall effect of interest-rate increases would be to depress household income. But as long as deposit rates rise in tandem with borrowing costs, the cost of a percentage point rise in rates would be less than 0.3% of incomes.

That reckoning, however, understates the likely impact. Analysing the debt and cash holdings of all consumers lumped together reveals little about the effect of interest-rate increases on spending. That actually depends on how the aggregate cash hoard and debt burden is divided.

People typically do not have both large debts and piles of cash, since it would make sense to use the latter to pay off the former. Rather there is a financial spectrum with, at one end, debt-laden householders, usually young, who have recently taken on a hefty mortgage and have little spare cash; and at the other end, older savers who have paid off their mortgages, or who have traded down to smaller homes and banked the proceeds.

These different sorts of consumers will respond to interest-rate increases in ways that are unlikely to be neutral for the economy. The indebted will cut their spending to free up the extra cash to service their loans. Once rates start to rise, those with the biggest debts might be anxious to save harder to pay down those debts at a faster pace. At the other financial pole, the cash-rich and debt-free (by definition savers not spenders) might well spend little, if any, of the extra income they gain from higher deposit rates.

Any squeeze on debtors' incomes might be mitigated if banks chose not to pass on any increase in funding costs stemming from higher base rates. That scenario is optimistic. The gap or "spread" between the Bank of England's rate and the average interest rate on mortgages (which account for four-fifths of household debt) has narrowed a bit recently, though it is much higher than before the financial crisis. This narrowing owes little, it seems, to banks competing more vigorously for mortgage business. Rather it reflects lower rates for borrowers whose fixed-rate deals had expired and lapsed into cheaper variable-rate mortgages.

In one sense, this is helpful: it has lifted the incomes of some borrowers at the banks' expense. But it has also made the economy more sensitive to changes in short-term interest rates. Before the crisis, around half of mortgages were at variable interest rates; by the end of last year, the share had risen to 69%. This greater sensitivity is heightened by the fragile state of Britain's housing market. Higher rates will crimp the already-weak demand for homes and weigh on house prices-perhaps spurring anxious borrowers to spend less and pay off their mortgages quickly.

A borrower not a saver be

A big enough interest-rate shock would start a downward spiral in debtors' finances, spending and house prices. Rising defaults would exacerbate the damage. For this reason, the MPC is likely to tread carefully. The "glacial pace" at which interest rates are likely to rise-perhaps 0.25 percentage points every three months or so-is unlikely to be dangerous, reckons Kevin Daly of Goldman Sachs. If spending suffers unduly, "the MPC would be able to deal with it," he says.

The polarisation of household finances that makes the impact of a rate rise so uncertain also helps to explain why some MPC members feel the need to act. Debtors are hoping that interest rates stay low, but savers and bondholders need to be reassured that today's high inflation won't be allowed to persist. A small rate increase would be a victory for savers. The needs of the economy mean that, overall, monetary policy will continue to favour debtors.

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Bagehot

The One Nation radical

The perils of trying to be both revolutionary and popular

CALL this a health crisis? Conservative governments of the past would have looked at the current fuss over a planned shake-up of the National Health Service, and envied David Cameron his luck.

True, the British Medical Association (BMA), a doctors' trade union, has grumbled about the proposals from Mr Cameron's government, as have some Liberal Democrats, his partners in coalition. Broadly, the contested plans seek to extend health-sector competition, cut out a thick slice of NHS management and hand decisions about spending (ie, rationing) to the bit of the machine most trusted by patients, namely GPs (family doctors).

But there have been no hospital strikes. The general public has barely registered the reforms, let alone taken against them-which is hardly its fault, as even NHS insiders admit that the revamp takes "an hour to explain". The health secretary, Andrew Lansley, has yet to be jeered by nurses (a badge of honour for previous ministers).

A couple of decades ago, the BMA paid for billboards depicting the government as a driverless steamroller. In return, a Tory health secretary, Kenneth Clarke, accused doctors of hearing "reform" and "reaching for their wallets". Back then, the Conservative Party was split. Some ministers backed universal public health care. Margaret Thatcher wanted tax

breaks for those who took out private insurance, thinking it "disgraceful", as one of her ministers later recalled, that the better-off should expect the state to fund their routine medical needs.

Today's leading Tories vie only to heap praise on the NHS. Its defence is the totem around which Mr Cameron's project of "detoxifying" the Conservative brand has revolved. The NHS spent years caring for his gravely disabled son, Ivan, who died in 2009. That biography, coupled with vows that a Conservative government would ring-fence NHS spending, effectively neutralised health (a traditional Tory vulnerability) at the 2010 election.

Today, even Labour politicians admit that the coalition's ideas build on market-based reforms introduced by Tony Blair. In a sober speech on April 4th the Labour leader Ed Miliband offered to work with the government on improving the plans, calling for "the right kind" of market competition.

Yet for all that, alarm bells are clanging in Mr Cameron's inner circle. On April 6th the prime minister, his Lib Dem deputy Nick Clegg and Mr Lansley announced a two-month "listening exercise" to review their NHS policy. That carries its own risks: the legislation is already trundling through Parliament; hints of concessions have generated headlines about Mr Cameron's alleged habit of retreating at the first sign of trouble.

Allies of Mr Cameron have a different explanation: the "pause", they say, is inspired by his conviction that big changes are needed in the NHS, but are possible only with the support of a majority of the NHS's million-strong workforce. Mr Cameron needs to connect with NHS staff and persuade them of his personal commitment to the service and its founding ideals, and that he is a "very different" sort of Tory prime minister.

Honesty is still good policy

That explanation is intended to reassure. But in truth it sends a troubling message about Mr Cameron's strategy in government. Mr Cameron stands by the need for radicalism: sources say he will not give ground on core principles such as culling NHS managers, more diversity of provision, devolution of power outward from the centre and more patient choice. Yet remaining popular is also a core strategy. That is a tall order.

Conventional wisdom in Westminster blames the NHS kerfuffle on Mr Lansley, an aloof technocrat who arrived in office with a fully formed scheme in his head for reorganising the health service. The problem, says a senior Conservative, is that the plan "works in Andrew's mind, but Andrew's mind is very complex." Next, Westminster wisdom blames Mr Cameron for being too much of a chairman and not enough of a chief executive in his first months in office, and for failing to challenge Mr Lansley, an old friend and colleague, earlier. Being in coalition, it is noted, brings its own headaches. Finally, some say, Mr Cameron's warmth towards the NHS is so unusually integral to his political identity that he cannot afford any trouble over health.

All fair points. But what if Mr Cameron's populist wooing of the NHS is at once a strength and a weakness? Ring-fencing the NHS budget was a brilliant wheeze for the election. But it also told voters the NHS was affordable: many are now understandably baffled to be told it needs drastic surgery to survive. It is smart politics to imply that savings can be made by cutting bureaucracy and empowering GPs. But, as a senior Tory says, most voters know that their GP is busy. They will find it "not plausible" that GPs could oversee the spending of tens of billions of pounds in their spare time. Most will guess that GPs will end up hiring someone-ex-NHS managers or private companies-to help.

There is a wider pattern here. Whether they involve his dreams of a voluntarist "Big Society", an abortive forestry privatisation or now the NHS, Mr Cameron has talked up those bits of his plans that involve the popular and familiar (eg, charities, community groups or GPs) and downplayed more jarring ideas, such as increased competition, a smaller state or an expanded role for the private sector. Each time, the public has responded warily, sensing something that does not quite add up.

Mr Cameron wants to be a One Nation radical, it sometimes seems: a consensual revolutionary. His personal credibility as a moderate is key to his party's claim to govern. That positioning might imply an astute reading of modern Britain. But as this week's undignified NHS wobble shows, it can also be a trap.

Economist.com/blogs/bagehot

Something wrong with our **** chips today

Kill switches are changing the conduct and politics of war

IN THE 1991 Gulf war Iraq's armed forces used American-made colour photocopiers to produce their battle plans. That was a mistake. The circuitry in some of them contained concealed transmitters that revealed their position to American electronic-warfare aircraft, making bomb and missile strikes more precise. The operation, described by David Lindahl, a specialist at the Swedish Defence Research Agency, a government think-tank, highlights a secret front in high-tech warfare: turning enemy assets into liabilities.

The internet and the growing complexity of electronic circuitry have made it much easier to install what are known as "kill switches" and "back doors", which may disable, betray or blow up the devices in which they are installed. Chips can easily contain 2 billion transistors, leaving plenty of scope to design a few that operate secretly. Testing even a handful of them for anomalies requires weeks of work.

Kill switches and other remote controls are on the minds of Western governments pondering whether to send weapons such as sophisticated anti-tank missiles, normally tightly policed, to rebels in Libya. Keeping tabs on when and where they are fired will allay fears that they could end up in terrorist hands. Such efforts would not even need to be kept secret. A former CIA official says the rebels could be told: "Look, we're going to give you this, but we want to be able to control it."

That lesson was first learned in Afghanistan in the 1980s, when America supplied Stinger missiles to help Afghan fighters against Soviet helicopter gunships, only to have to comb the region's arms bazaars in later years to buy them back (some were then booby-trapped and sold again, to deter anyone tempted to use them).

America worries about becoming the victim of kill switches itself. Six years ago a report by America's Defence Science Board, an official advisory body, said "unauthorised design inclusions" in foreign-made chips could help an outside power gain a measure of control over critical American hardware.

Chips off the home block

In response, America has launched schemes such as the Trusted Foundry Programme, which certifies "secure, domestic" facilities for the manufacture of the most critical microchips. The Defence Advanced Research Projects Agency (DARPA), a Pentagon outfit devoted to expanding the military's technological abilities, will spend at least $20m this year on ways to identify rogue microchips. The Army Research Office is holding a closed conference on kill switches in mid-April.

Farinaz Koushanfar, a DARPA-funded expert at Texas's Rice University, says microchip designers would like to be able to switch off their products "in the wild", in case the contractors that make the chips produce some extra ones to sell on the sly. She designs "active hardware metering" chips that, in devices connected to the internet, can remotely identify them and if necessary switch them off.

An obvious countermeasure is to keep critical defence equipment off the net. But that is only a partial solution. Chips can be designed to break down at a certain date. An innocent-looking component or even a bit of soldering can be a disguised antenna. When it receives the right radio signal, from, say, a mobile-phone network, aircraft or satellite, the device may blow up, shut down, or work differently.

Old-fashioned spying can reveal technological weaknesses too. Mr Lindahl says Sweden obtained detailed information on circuitry in a heat-seeking missile that at least one potential adversary might, in wartime, shoot at one of its eight C-130 Hercules military-transport planes. A slight but precise change in the ejection tempo of the decoy flares would direct those missiles towards the flame, not the aircraft.

Such tricks may be handy in dealing with unreliable allies as well as foes, but they can also hamper Western efforts to contain risk in unstable countries. Pakistan has blocked American efforts to safeguard its nuclear facilities. The country's former ambassador to the United Nations, Munir Akram, cites fears that such measures will include secret remote controls to shut the nuclear programme down. A European defence official says even video surveillance cameras can intercept or disrupt communications. To avoid such threats, Pakistani engineers laboriously disassemble foreign components and replicate them.

Wesley Clark, a retired general who once headed NATO's forces, says that "rampant" fears of kill switches make American-backed defence co-operation agreements a harder sell. David Kay, a notable United Nations weapons inspector in Iraq, bemoans "scepticism and paranoia". You just can't trust anybody these days, even in the weapons business.

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Lethal injections

Toxic assets

Europe chokes America's supply of lethal drugs

CAPITAL punishment in the rich world is largely an American affair. But the source of the drugs used to kill is cosmopolitan. Two executions in Arizona and Texas, due in early April (but delayed by a Supreme Court ruling) would have used, respectively, an Austrian drug imported from Britain and a lethal dose of a Danish-made anaesthetic. America's dependence on such imports stems from a shortage of sodium thiopental, part of the three-drug cocktail used in most executions. It used to be common in Caesarean sections (it dopes the mother but not the baby) but other drugs have superseded it. Its only American producer, a company called Hospira, disliked its use in executions and ceased making it in January. The company first blamed unspecified difficulties in obtaining the ingredients. Then it tried to shift production to a plant in Italy. But politicians there objected.

A growing shortage forced the postponement of several executions last autumn. Some states, including Georgia, Arizona and California, tried to find supplies in Britain. They garnered enough sodium thiopental for around 80 executions, but in November, following a court case brought by a pressure group, the British authorities banned any further exports; campaigners are now trying to have the previous shipments recalled, citing concerns about poor storage in transit. Defence lawyers in America say the imports may have been illegal. On March 15th the Drug Enforcement Administration seized the state of Georgia's entire stock, pending an investigation into its provenance. On April 1st Kentucky and Tennessee confirmed that they had also handed over their supplies.

Some states are turning to alternatives. Ohio and Oklahoma are using pentobarbital, which has more medicinal uses, is in more plentiful supply and is made in America. Texas has switched; so may Arizona and Mississippi. The main producer of pentobarbital is H. Lundbeck, a pharmaceutical company with headquarters in Copenhagen. It objects loudly to its

drugs being used in executions. But the firm claims to be powerless to prevent sales by middlemen and says the suggestion of adding an "end-use" clause to its sales contracts would not be "viable". Pulling the drug from the market would hurt many other customers (doctors use it, among other things, as an emergency sedative for epileptics).

European Union regulations already prohibit the export of electric chairs and automatic-injection systems, which have no use except in capital punishment. But the EU currently has no applicable controls on drugs normally used to treat people, rather than kill them. In January, 13 anti-death-penalty groups wrote to the European Commission, asking for the law to be amended to block any deal that might result in European goods being used in executions. It agreed to investigate.

In any case, America's appetite for executions is diminishing. Thirty-four states have the death penalty, but only 12 carried out executions last year. According to the Death Penalty Information Centre, the number has dropped from a recent peak of 98 in 1999 to 46 in 2010. Illinois is the latest state to outlaw capital punishment, on March 9th, following New Mexico (2009) and New Jersey (2007).

Tighter controls over European drugs will make life hard for American executioners, but not impossible. Last year a prisoner in Utah was executed by firing squad. Virginia wheeled out the electric chair. Particularly resourceful states have looked farther afield to find the drugs they need. Nebraska has sought sodium thiopental from India. But with federal agencies on the prowl, state officials are proceeding cautiously, not least in what they say. In September Arizona shared several grams of sodium thiopental with officials in California, who took delivery only hours before their own stock expired. Having scoured around 100 hospitals and surgeries in search of the lethal stuff, the recipient sent a grateful note saying: "You guys in Arizona are lifesavers."

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Capitalism's waning popularity

Market of ideas

A global poll shows an ideology in apparent decline

RISING debt and lost output are the common measures of the cost of the financial crisis. But a new global opinion poll shows another, perhaps more serious form of damage: falling public support for capitalism. This is most marked in the country that used to epitomise free enterprise. In 2002, 80% of Americans agreed that the world's best bet was the free-market system. By 2010 that support had fallen to 59%, only a little above the 54% average for the 25 countries polled. Nominally Communist China is now one of the world's strongest supporters of capitalism, at 68%, up from 66% in 2002. Brazil scores 68% too. Germany squeaks into top place with 69%.

France, one of the world's strongest economies, continues as an anti-capitalist outlier. Only 6% of French "strongly" support the free market, down from an already puny 8% in 2002. Add those who "somewhat agree" with capitalism's superiority and the figure is 30%, down from 42% in 2002. Turkey (another free-market success story) had the same level of support then, but it has dropped even lower, to a mere 27%. In Europe only Spain seems to buck the trend, rising from 37% in 2002 to 51% . Indians, on paper big winners from free-market reforms, appear unimpressed: support has dropped to 58% from 73%.

Capitalism's waning fortunes are starkly visible among Americans earning below $20,000. Their support for the free market has dropped from 76% to 44% in just one year. The research was conducted by GlobeScan, a polling firm. Its chairman Doug Miller says American business is "close to losing its social contract" with average families.

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A special report on pensions

Falling short

People in rich countries are living longer. Without big reforms they will not be able to retire in comfort, says Philip Coggan

WHEN GERTRUDE JANEWAY died in 2003, she was still getting a monthly cheque for $70 from the Veterans Administration-for a military pension earned by her late husband, John, on the Union side of the American civil war that ended in 1865. The pair had married in 1927, when he was 81 and she was 18. The amount may have been modest but the entitlement spanned three centuries, illustrating just how long pension commitments can last.

A pension promise can be easy to make but expensive to keep. The employers who promised higher pensions in the past knew they would not be in their posts when the bill became due. That made it tempting for them to offer higher pensions rather than better pay. Over the past 15 years the economics of the deal have become clear, initially in the private sector, where pensions (and health-care costs after retirement) were central to the bankruptcy of General Motors and many other firms.

There are big national differences, but in most developed countries the bulk of retirement income (around 60%, according to the OECD) comes from the state. Most countries offer some kind of basic safety net for those who have no other income. In addition to this, they may have a social-insurance scheme to which workers and employers contribute. Despite the insurance label, these are essentially pay-as-you-go (PAYG) systems in which benefits are paid out of current taxes.

In some countries workers also have pension rights that are linked to their employment, whether it is in the public or the private sector. Such schemes can be funded (as in America, Britain and the Netherlands) or unfunded (as in much of Europe). In some cases the state has required such schemes to cover all employees. Australia, for instance, has turned itself into the world's fourth-largest market for fund management by setting up a compulsory national pension scheme for its 22m people. On top of that, people accumulate savings (sometimes called pensions and sometimes not) that they expect to draw on during their declining years.

The four challenges

Pension provision is higgledy-piggledy and often complex, but most rich countries are having to deal with four main underlying problems. This special report will analyse these in detail and suggest ways of tackling them. The first is that people are living longer, but they are retiring earlier than they were 40 years ago. A higher proportion of their lives is thus spent in retirement. Second, the large generation of baby-boomers (in America, those born between 1946 and 1964) is now retiring. But the following generations are smaller, leaving the children of the boomers with a huge cost burden.

Third, some employees have been promised pensions linked to their salaries, known as defined-benefit (DB) schemes. In the 1980s and 1990s the true cost of these promises was hidden by a long bull market in equities. But the past dismal decade for stockmarkets depleted those funds and left employers on the hook for the shortfall. Private-sector employers have largely stopped making such promises to new employees; the public sector is beginning to face the same issues, particularly in Britain and America.

Fourth, private-sector employers are now providing pensions in which the payouts are linked to the investment performance of the funds concerned. These defined-contribution (DC) schemes transfer nearly all the risk to the employees. In theory, they can provide an adequate retirement income as long as enough money is paid in, but employees and employers are contributing too little. Both sorts of funded schemes, DB and DC, essentially face the same problem. "The aggregate amount of pension savings is inadequate," says Roger Urwin of Towers Watson, a consultancy.

Estimating the cost of pension provision has proved enormously difficult. People have consistently lived longer than the actuaries have expected. In 1956 a 60-year-old woman retiring from a job in Britain's National Health Service had a life expectancy of just under 20 years; by 2010 she could expect to live for another 32 years.

Paying a pension for longer is much more expensive, particularly if the payout is linked to inflation. *The Economist* asked MetLife, an insurance company, to calculate what a couple in America would have to spend on an annuity paying out the maximum level of Social Security benefit (the state pension) at age 66: $4,692 a month now and rising in line with inflation. The answer is almost $1.2m.

Politicians tend to underestimate the cost of financing PAYG systems. It is tempting to look simply at the ratio of cash benefits to contributions, rather than allowing for the value of the promises being made to future pensioners. But even on a cash basis, pension finances are deteriorating. In 2010 America's Social Security system ran a cash deficit for the first time since 1983 as more money was paid out in benefits than was collected in contributions. This happened about six years earlier than expected, thanks to unusually high unemployment.

The immediate cash cost is only part of the problem; the longer-term calculation also involves the value of future pension promises. In bearing that burden, the key figure is the ratio of workers to pensioners, known as the support (or dependency) ratio. This is deteriorating steadily in all rich countries (see chart). As a result, the tax burden is set to rise, at a time when many countries are still struggling to cope with the fiscal deficits left over from the financial crisis.

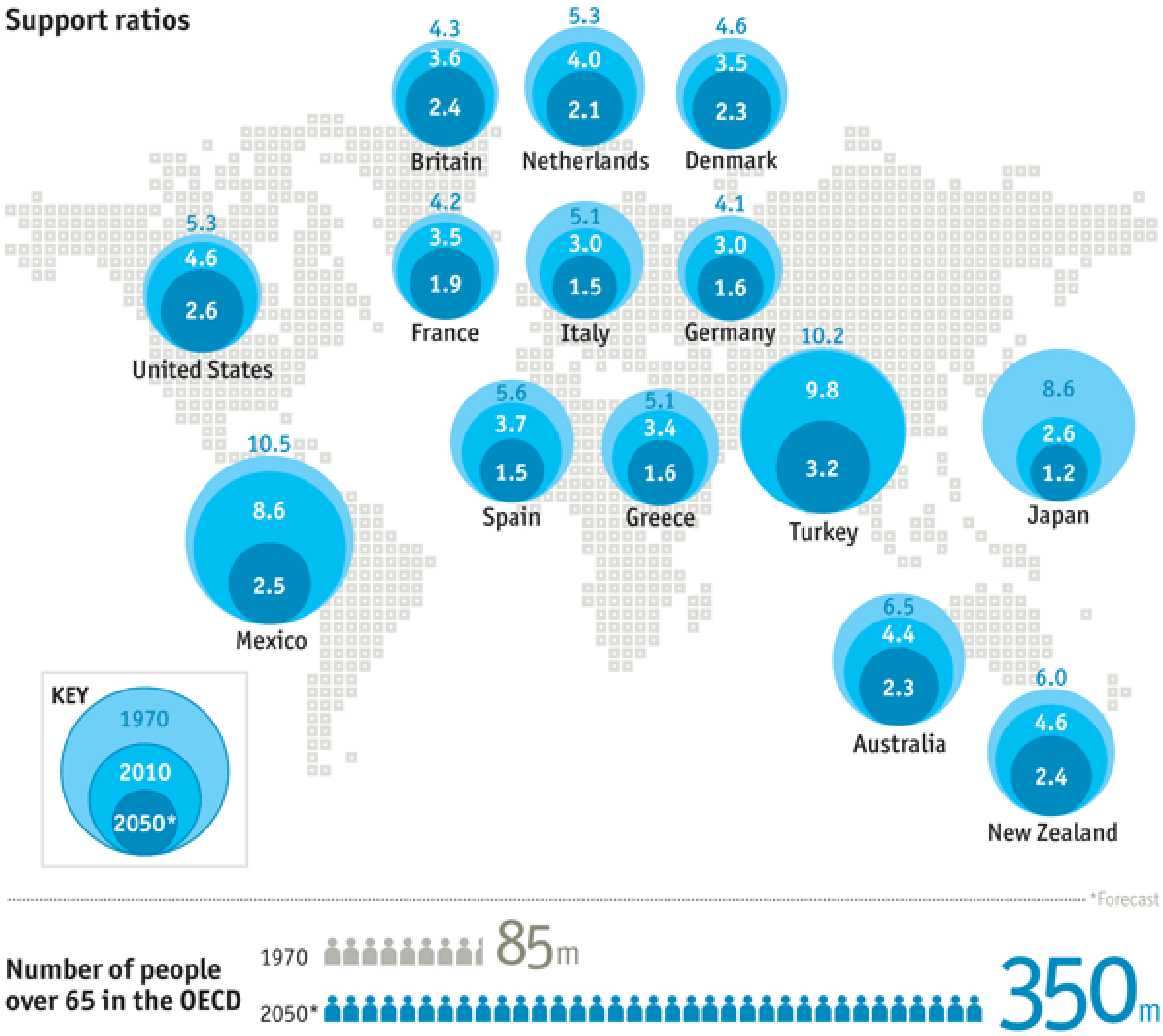
Key terms

Support ratio: The number of people of working age compared with the number of people beyond retirement age.

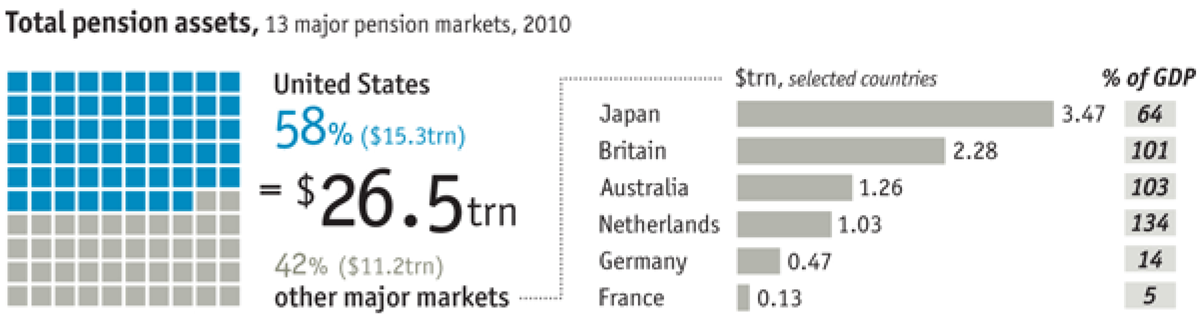
Participation rate: The proportion of the population that is in the labour force.

$ Defined benefit: A pension linked to the employee's salary where the risk falls on the employer.

$ Defined Contribution: A pension dependent on the amount contributed, and the investment performance, where the risk falls mainly on the employee



Pensions paid through a funded scheme do not necessarily work better. Many American states and cities have been underfunding the pension schemes for their employees for years, gambling on the stockmarkets to bail them out. That gamble has failed, and now taxpayers are expected to come to the rescue. Either taxes must rise or benefits must be cut.

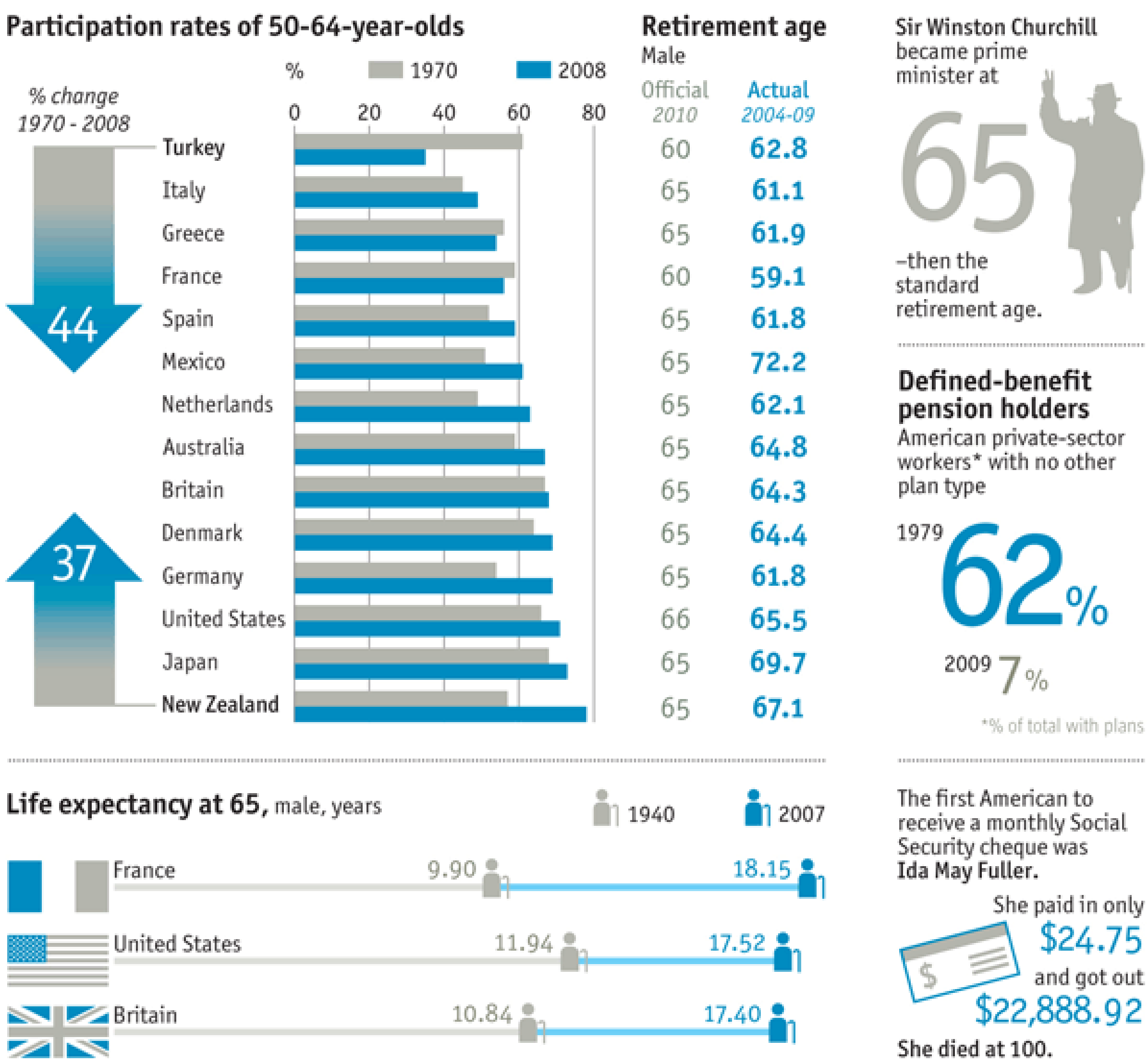


A cut by another name

The most obvious "cut" is for people to work longer so that pensions are paid over a smaller proportion of their lifetime. In many countries reform attempts have accordingly concentrated on raising the minimum retirement age or increasing the number of years for which an employee has to contribute before qualifying for full benefits. In France a move to raise the minimum retirement age to 62 was accompanied by a phased increase in the minimum level of contributions from 40.5 to 41.5 years, a change that was duly attacked by left-wing commentators as being unfair to unemployed workers, part-timers and students entering the job market late. Italy has gone one stage further: from 2015 on, future changes in the retirement age will be indexed to the rise in life expectancy.

Sweden, Germany and Japan already have an automatic balancing system to deal with deteriorating pension finances, largely by making the inflation-linking of benefits less generous. The Netherlands, which has the best-funded (and widely admired) DB pension system in the world, also limits inflation-linking, but delivers pensions that are very close to average earnings. Research by Towers Watson shows that it has a higher ratio of pension assets to GDP than any other country-

and it benefits from economies of scale, with pension provision dominated by the giant ABP and PGGM funds. However, contributions are high and the rules on solvency are extremely strict, requiring liabilities to be more than 100% funded.



Pension promises involve a transfer from one generation to another, even when one of those generations is too young to vote. That is true even when schemes are funded, and the money invested in equities and bonds; future workers will have to generate the income needed to pay the dividends on those shares and the interest on that debt.

That is turning pensions into a battleground, pitting young against old and taxpayers against pensioners. The fiscal crisis has exacerbated the fight. Pension promises made by the government (either to all citizens or to public-sector workers) do not show up in the debt-to-GDP ratios that are used to analyse state finances. Adding them in makes the position look even more alarming. On conservative accounting assumptions, the combined pension deficits of the American states are equal to a quarter of the gross federal debt.

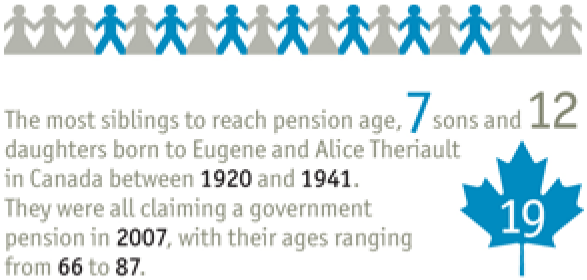
The problem is particularly acute at the level of America's states because so many of them have balanced-budget amendments. When pension shortfalls require higher contributions, the money must be found from somewhere: higher taxes, less spending on other services or higher contributions from workers (amounting to a pay cut). A further difficulty is that pension rights have been deemed to be legally (and in some cases constitutionally) protected-though some Republican governors have tried to cut unions' bargaining rights.

Private-sector workers may be aggrieved at having to fund the generous pensions of their public-sector counterparts through their taxes. But unions are strongest in the public sector and will fight hard. Nobody seriously disputes that employees should keep the pension rights they have accrued so far, although they may receive the benefits later; the battle is over whether employees should be allowed to keep accruing the same perks in the future.

Britain's coalition government is desperately trying to cut its deficit, so a rise in pension costs is particularly inopportune; as it is, the gap between public-sector pension benefits paid and contributions received is expected to widen from pound4 billion in 2010-11 to pound10.3 billion by 2015-16. A recent government-commissioned report into the cost of public-

sector schemes by Lord Hutton, a former Labour minister, proposed a number of changes, including a later retirement age, higher employee contributions and a pension based on the employee's career-average, rather than final, salary.

Since pensions are a form of deferred pay, workers view such reforms as a pay cut, albeit to pension rights they have not yet accrued. There is room for debate about whether such cuts are fair. But in some countries the raid on pensioners' assets has been rather more brazen. Hungary, for instance, set up a mandatory pension system in 1998 to supplement the state scheme, with contributions deducted from wages and invested in a private fund. By 2010 the fund had amassed nearly $14 billion of assets, but the cash-strapped government has in effect nationalised it by imposing stiff financial penalties on workers who want to remain in the private sector. Argentina, for its part, seized private-sector pension assets in 2008.

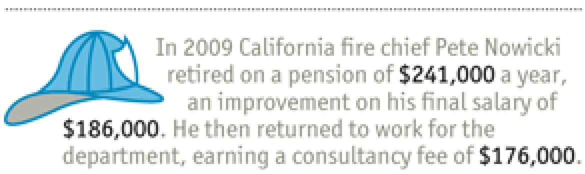


If all the burden is not to fall on the state, workers need to save more during their lifetimes. That may require a change in attitude. The old system was distinctly paternalist: either the employer or the government would provide. In America and Britain the switch from DB to DC schemes in the private sector has left the responsibility with the individual worker, but employees have yet to rise to the challenge. They are not putting enough money in, and inevitably will not get enough out. British pensioners with DC plans have accumulated an average pension pot of only pound27,000, according to Aviva, an insurance company-enough to buy a pension of just pound2,000 a year, with no inflation protection. That will not go far to supplement Britain's meagre state pension.

Whether or not people can expect a comfortable retirement depends on the replacement ratio-the proportion of their lifetime average earnings that their pension will pay out. This does not have to be close to 100% because generally pensioners need less to live on than full-time workers. They avoid the expenses associated with work and dependent children, have mostly paid off the mortgage on their house and no longer need to save for their retirement.

But the ratio often falls short of expectations. The OECD reckons that the average worker in its member countries currently gets a state pension of around 42% of his average earnings. If state benefits are cut, more of the burden will fall on private provision. A recent survey by Aviva suggested that European workers are hoping for a replacement ratio in the region of 70% but are likely to get only 35-55%, depending on the country.

The replacement ratio needs to be higher than average for the least well paid, who spend proportionately more on essentials such as food, fuel and shelter. The OECD reckons that the net replacement ratio (allowing for the effect of taxes) for the poorest workers, on half mean earnings, averages just under 83%, but there are big national differences; in Denmark, Greece and the Netherlands it is more than 100%, but in Germany, Mexico and Japan it is under 60%.



So despite the need for cutting costs, governments need to ensure that their elderly citizens have enough money to maintain a decent standard of living. In the majority of countries poverty rates among the elderly are higher than those in the general population. Women are in a worse position than men: they live longer, typically earn less and spend a shorter time in the workforce. If they are married, their pension entitlements often depend on their husbands' earnings.

Japan, which started greying earlier than other developed economies, can be viewed as an ominous precedent. Its only advantage in the pensions battle has been that its workers tend to retire later than those in other countries-around a decade after those in France. Nevertheless, the ageing of its population over the past 20 years has been accompanied by deflationary pressures, sluggish economic growth and moribund asset markets. Public spending on pensions has risen by more than 80%. In the corporate sector lax accounting standards disguised the true cost of providing pensions. When the standards were changed, the true horror was revealed: in 2003 the average plan was just 42% funded, so the government

had to take over the liabilities of many companies. Even after this rescue, Japan Airlines had to slash pensions by 30% as part of a restructuring plan-a huge blow to pensioners' standard of living.

Infographic sources: J.P. Morgan; Guinness World Records; Human Mortality Database; OECD; US Social Security Administration; Towers Watson; *Wall Street Journal*

Where Japan has led, other ageing economies may follow. This special report will focus on rich countries, where most of the problems arise. The details may differ but the impact of the baby-boomers shows up everywhere; their pensions will be a huge burden on coming generations.

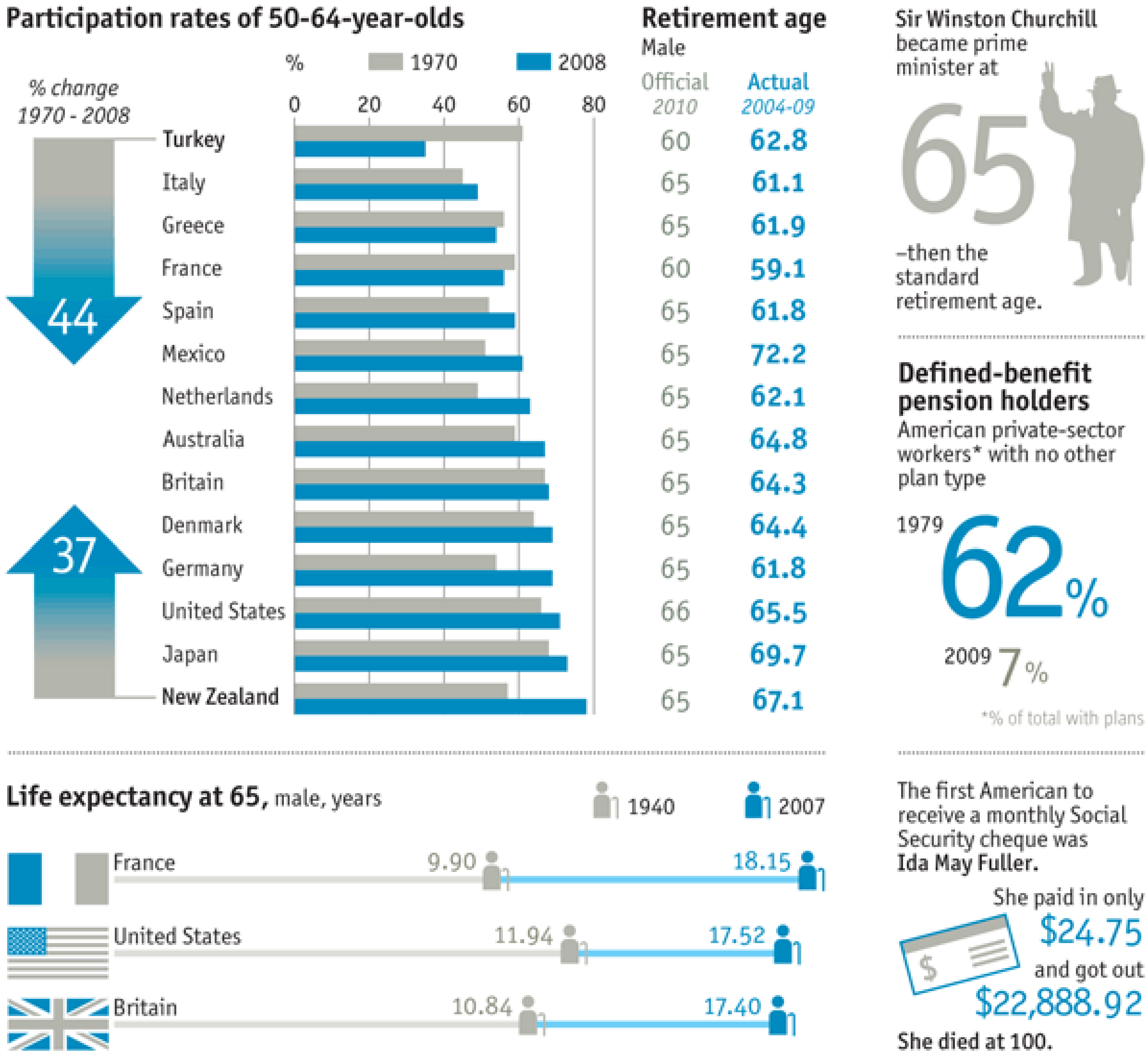
A special report on pensions

Too much, too young

Watch your wallets: the baby-boomers are beginning to retire

WHEN MOST LABOUR was agricultural, people generally toiled in the fields until they dropped. The idea of formal retirement did not become feasible until work moved from farms to factories. In 1889 Otto von Bismarck famously introduced the world's first (modest) pension scheme in Germany. In the 20th century, when universal suffrage became widespread, a period of retirement after work was seen as a mark of a civilised social democracy.

After the second world war pension provision increased markedly, but the number of elderly people was still quite small (see chart). In the 1970s and 1980s caring for them seemed easily affordable. Many countries even reduced their retirement ages.



The demographic picture looks different now that the baby-boomers are starting to retire. In 1950 there were 7.2 people aged 20-64 for every person of 65 and more in the OECD. By 1980 the ratio had dropped to 5.1. Now it is around 4.1, and by 2050 it will be just 2.1. In short, every couple will be supporting a pensioner.

Europe and Japan are facing the biggest problems. The average dependency ratio in the European Union is already down to 3.5, and is heading for 1.8 by 2050. In Italy it is forecast to be nearly 1.5 and in Germany nearly 1.6 by then. Japan is on track for a startling 1.2. Since the average pensioner currently draws a total of about 60% of median earnings, from government and private sources, the system is likely to become unaffordable. In a sense, it does not matter how the benefits are paid for. If they are unfunded, they come from workers' taxes; if funded, they come from investment income. But the income has to be generated by someone.

There are ways of reducing the burden. The current generation of workers could save more now. If they put more money into funded pension schemes, the extra saving might encourage more investment and thus boost economic growth. A wealthier society would find it easier to afford paying pensions. Countries with PAYG schemes could raise taxes now, reducing the deficit and thus the debt burden on the younger generations.

We want it now

But more savings or higher taxation now would require those currently at work to defer consumption. They may not be willing to do so. And given the weakness of developed economies in the wake of the financial crisis, governments may not want to see consumption go down in the immediate future.

In the OECD public spending on pensions benefits has been growing faster than national output, rising from 6.1% of GDP in 1990 to 7% in 2007. It is forecast to reach 11.4% of GDP by 2050. Those forecasts already take into account the planned rise in retirement ages and a likely drop in replacement ratios and thus assume that voters will approve of pension reform even as the baby-boomers become a potentially powerful voting block of retired people.

But that assumption may not be safe. Turnout in elections tends to be higher among the elderly than among the young. As Neil Howe and Richard Jackson of the Centre for Strategic and International Studies in Washington, DC, have written: "In the 2020s young people in developed countries will have the future on their side. Elders will have the votes on theirs."

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Hiring grandpa

All hands on deck

WHEN WINSTON CHURCHILL reached the age of 65, his career was still regarded as a bit of a failure. Had he retired then, as most modern 65-year-olds would, he would never have become prime minister, made the speeches for which he has become famous or topped polls of the greatest Britons ever. Is the rich world ignoring the potential of its older workers whose finest hours could still be ahead of them?

As things stand, the absolute number of people of working age in the developed world is set to fall. In the EU it is likely to drop from 305m in 2010 to 286m in 2030 and just 255m in 2050. Over the same period the number of those aged over 65 in those countries will rise from 87m to 142m.

Economic growth is a function of the size of the workforce, the amount of capital employed and the rise in productivity. If the workforce shrinks, as demography shows it will, all the growth will have to come from capital investment and productivity improvements. In Japan, where the working population is already getting smaller, economic growth has been minuscule, despite a good productivity record. To counteract a shrinking labour force, the retirement age needs to be raised. Around half the countries in the OECD have already acted on this or are planning to do so. In America the age at which full Social Security benefits can be claimed was recently raised to 66 and is due to go up to 67 in 2026.

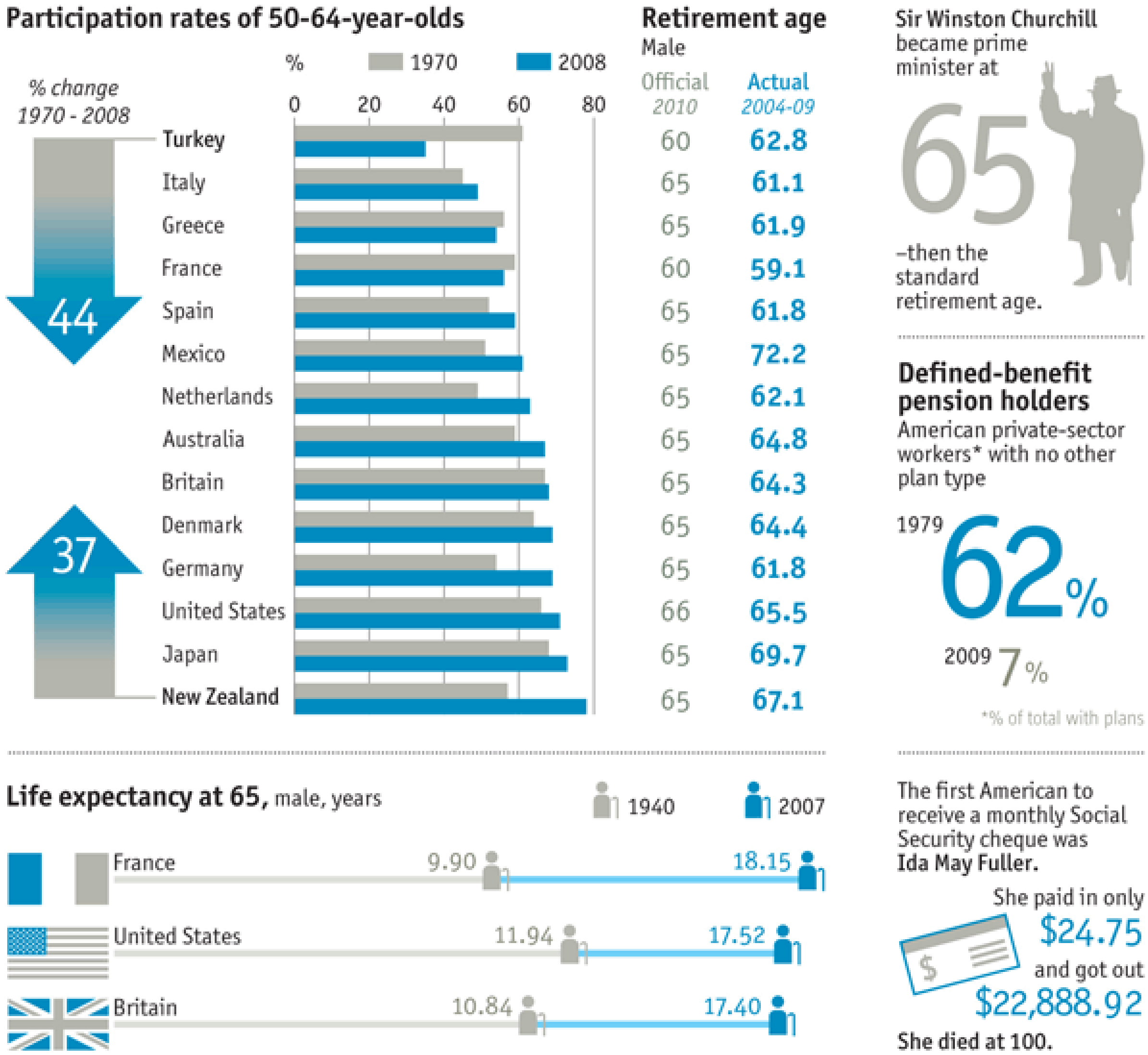
Working longer has two obvious economic benefits: it boosts output and reduces the length of time for which pensions need to be paid. But governments are barely managing to keep pace with increasing longevity. Between 1960 and 2010 life expectancy at 65 in OECD countries rose by around four years for men and more than five for women.

By 2050 the average official retirement age in the OECD is set to reach around 65, an increase of about 1.6 years for men and 2.5 years for women on today's figure. But over the same period life expectancy at 65 is expected to grow by around three years for men and three-and-a-half for women. So governments are not gaining any ground.

Changing the official retirement age is only the start. In some countries most people actually retire much earlier. In Luxembourg the official pension age is 65 but men on average leave the workforce at 57.

The actual retirement age in OECD countries fell sharply in the second half of the 20th century. In five European countries it is still below 60 for men and in 11 for women. In America more than half of all workers stop at 62, the age at which they can start drawing Social Security, albeit at a reduced rate. By contrast, the average Japanese man works until he is almost 70. Even then he will still have 15 years of retirement ahead of him. A 70-year-old Japanese woman has a life expectancy of 19 years.

Raising the official retirement age is not much use if people simply draw unemployment or sickness benefit instead of a pension. But fewer jobs now require a big physical effort, and older people's health has generally improved; in the 20 years to 2004 the proportion of Americans over 65 unable to function independently with ease fell from 26% to 19%.



Participation rates for older workers vary widely between countries (see chart). In some countries they have gone down, most notably in Turkey, where for a long time just 25 years of contributions entitled a worker to a full pension. But some countries have also managed to push up their rates. In New Zealand, which increased its official pension age from 60 to 65 over a nine-year period, the employment rate of 60-64-year-olds duly rose from 24% in 1992 to 66% in 2009.

A potential barrier to older people staying on in the workforce is the "lump-of-labour fallacy"-the belief that there is only so much work to go around. In the old days this was used by men to argue against women joining the workforce, and it is still cited by those opposed to immigration today. But it seems obvious that it is better for the economy if a 60-year-old does a productive job than if he is sitting idle, supported by the taxpayer. And the data clearly disprove the fallacy. In Europe the participation rates of those aged 20-25 and 55-59 respectively are positively correlated; in other words, if more older people are working, the chances are that younger people will be too.

As Alicia Munnell and Steven Sass point out in their book, "Working Longer", the trend for American men to retire early started to reverse after 1990. That may have been for a variety of reasons: the shift from manufacturing work that often involved heavy manual labour to a service-based economy; a more highly educated workforce (brainpower declines more slowly than physical ability); and women's recent tendency to return to work when their children have left home.

Shifts in pension provision in themselves can make people want to work longer. Most defined-benefit schemes have either a set retirement age or a mandatory number of contribution years before a full pension can be drawn. Once those conditions have been met, there is little financial incentive to keep working. But in a defined-contribution scheme another year of work probably means a better pension. Surveys suggest that people in DC plans retire a year or two later than those in DB schemes.

But even if people in their 60s want to keep working to improve their pensions, will employers want to hire them or keep them on? A study by America's AARP (formerly the American Association of Retired Persons) in 2002 found that two-thirds of older workers had witnessed or experienced discrimination on age grounds. One problem is perceived productivity. Ms Munnell and Mr Sass cite a study of human-resources professionals indicating that older employees were

valued for their loyalty and reliability but less highly rated in terms of flexibility, showing initiative and understanding technology.

The shift to DC pensions might help change employers' attitudes as well. Older workers have traditionally earned more, reflecting the weight of seniority in pay scales, so the cost of providing final-salary pension benefits for them has been higher. Christine Mahoney of Mercer Consulting reckons that the cost of funding a 60-year-old employee in a DB scheme is 12% of payroll, whereas in a DC plan it is just 6%. In America, where employers are expected to provide health care, older workers are also more expensive to insure. On the other hand such workers may be more flexible on pay, particularly if employers are willing to offer part-time work, which many older people prefer. That might make them more attractive to hire.

In the long run, employers will probably change their recruitment practices. Because of demographic factors, workers in their 20s and 30s will simply not be around in the same numbers as before, so the market for them will become much more competitive. Some jobs may be outsourced to developing countries but there will be plenty, particularly in the services sector, that cannot be. Unless a greater number of older workers stays in the labour force, wages are likely to be bid up sharply.

B&Q, a British DIY retailer, has been recruiting older workers since the 1980s, after a pilot project showed that having more of them around improved customer services and sales and reduced staff turnover and absenteeism. Perhaps some day employers will be giving 65-year-olds a gold watch when they join the company.

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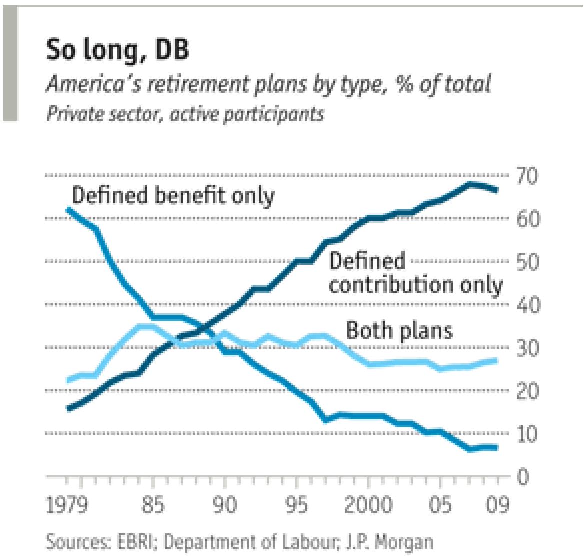
Over to you

Workers need to fend for themselves

THE RICH WILL always have a comfortable retirement; the poor will be supported by the state. For the people in the middle, the best hope of a decent pension has traditionally been to find a job that offered a final-salary pension and then stick around for the rest of their careers.



For private-sector workers, such jobs have become a rarity. "Defined-benefit plans are going the way of the dodo," says Olivia Mitchell of the Wharton Business School in Philadelphia. Over the past ten years global assets in DB plans have grown by just 2.9% a year, whereas those in defined-contribution plans have increased by 7.5%, according to a Towers Watson study. Between 1979 and 2009 the share of employees in DB pension plans in America fell from 62% to 7% of the total (see chart), according to the Employee Benefit Research Institute (EBRI), whereas those in DC plans rose from

16% to 67% (the rest had a bit of both). Assets in American DC schemes, also known as 401(k) plans after the subsection of the tax code that created them, were worth $2.8 trillion at the end of 2009.

With a DC pension, nearly all the risk is passed to the employees. James Poterba at the Massachusetts Institute of Technology, points out that a DC plan forces them to make a set of decisions, such as their contribution rate and their asset allocation, for which they may not be equipped. "A very large proportion of the population has no interest, knowledge or time to direct their 401(k) plans. They are known as the unengaged majority," says Kristi Mitchem of State Street Global Advisors, a custody and fund-management firm.

The danger is that employees will underestimate the size of the pension pot they need and overestimate the investment returns they will achieve. The cost of providing pensions has risen over the past decade; investment returns have been poor and interest rates have fallen. Lower interest rates are important because pension providers are, explicitly or implicitly, buying annuities (guaranteed lifetime incomes) for their clients. A report by Charles Cowling for Politeia, a think-tank, found that last year it cost pound25.50 to buy a British annuity that paid pound1-worth of pension a year. In 1990 it could have been bought for pound12.70.

Logically, therefore, employees should be contributing more to their pension pots. But in the shift from DB to DC the reverse has happened. Employers contribute around 20-25% of payroll to DB plans. The combined total of contributions (by employers and employees) to DC plans in America and Britain is around 9-10%. The amount put into a plan largely determines the resulting pension, so the current level of DC contributions will not deliver anything like the old final-salary pensions. The average account balance in American DC plans at the end of 2009, according to the EBRI, was just $58,351. But that may sound gloomier than it is, because the median age of DC plan members is only 45, with many years to go to retirement; and some may have other sources of retirement income, such as DB schemes.

Another way to get at the numbers is to look at employees who were consistent members of DC schemes over a period of ten years. The EBRI puts the average balance of such people at $131,438 in 2009, up from $67,420 in 1999, which amounts to a compound growth rate of 7%. That would suggest that the growth in balances has largely been driven by contributions. Even employees in their 60s who had been members of DC plans for 30 years had accumulated pots of less than $200,000, enough to generate a sustainable income of perhaps $10,000 a year. That is not a huge reward for 30 years of thrift. Seth Masters, chief investment office of Alliance Bernstein, puts the numbers in perspective: "If our industry is to be successful [in generating a decent pension], people have to be retiring with pots of $750,000 to $1 million."

The figures look even worse given that members of DC plans tend to be among the better-paid. A 2007 paper for the National Bureau of Economic Research found that among families with earnings above $100,000, over 87% were eligible for a 401(k) plan; among those earning less than $25,000, under 36% were.

Even if contribution levels improve, the results of DC plans will be highly variable because they depend on the investment performance. That means two workers with identical career paths and salaries could end up with very different pensions.

The choice of funds within the pension plan is therefore extremely important. After the collapse of Enron, an American energy company, it turned out that many of its workers had invested their pensions in company shares. They lost everything.

Pot luck

To avoid such problems, most employers offer a diversified plan. In Britain the portfolio which employees are allocated if they do not make their own selection will have a mixture of equities, government bonds and other assets, and will be structured in such a way as to become less risky over time as employees near retirement. This reflects the fact that most Britons use their pension pot to buy an annuity.

In America the fastest-growing part of the market is target-date funds, which build a savings pot matched to the employee's chosen retirement date by investing in a range of assets. The EBRI says that in 2009 some 77% of all DC plans offered such funds; of those employees who had the option, some 46% took it. This is a huge business for the three fund-management companies that dominate the sector, Fidelity, T. Rowe Price and Vanguard.

In America very few retired people buy an annuity. They can wait until they reach the age of 70 and six months before they even have to turn their pension pot into income; then they get it by selling part of the fund each year. Target-date fund managers therefore regard themselves as selling a product that runs "through" rather than "to" retirement. Managers say that this justifies more exposure to equities since investors need some protection against inflation.

But this higher equity exposure comes at a price. In 2008 funds with a 2010 target suffered losses of 20-30% as the stockmarket plunged. Critics think this shows the danger of steering employees towards equities. "Defaulting people into target-date funds is a violation of the employer's fiduciary responsibility," says Lawrence Kotlikoff at Boston University. "Stocks are not safer in the long run. Their variability just gets bigger."

Derek Young, the chief investment officer at Fidelity's target range, argues that investors should take the long view. Continuing exposure to equities allowed Fidelity's 2010 fund to rebound with the market; since its launch in 1996 the fund has delivered annual returns of 6.8% after fees. Research by Vanguard shows that only 2.5% of target-date holders sold out of their funds (and thus realised their losses) in 2008. Target-date funds may be better than the alternatives, since otherwise investors may take too much or too little risk. As target-date funds became more popular, the share of DC plans invested in the employer's stock fell from 19% in 1999 to 9% in 2009. But even a well-diversified portfolio will not help if too little is invested in it.

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A nudge and a wink

How to persuade employees to provide for their old age

ALBERT EINSTEIN IS said to have described compound interest as the eighth wonder of the world. It should also be a boon for workers planning their retirement. Start saving early enough and a pension becomes much more affordable.

Unfortunately young people are often unable or unwilling to take advantage of this miracle. Their wages are low and their main priority may be to pay off their student debts or to save for a deposit on a house. Moreover, they may find it difficult to defer gratification or, as economists like to put it, they use hyperbolic discounting. Most of them would much rather have money in their hands today than put it aside for a retirement which they can barely imagine. "People worry about sacrificing their liquidity by putting money in a pension," says Alex Waite of Lane Clark & Peacock, a benefits consultancy. "They may have money to save now but think they might need it next year."

But people may change their behaviour if the problem is explained to them in the right way. In one academic study college-age students who were shown digitised pictures of themselves as they might look in old age allocated more than twice as much of their income to retirement savings as students who were shown contemporary photos.

Most countries use some form of tax incentive to encourage saving for pensions, usually by making contributions tax-deductible and allowing pension pots to accumulate tax-free. In a survey by the Investment Company Institute, more than 80% of pension-plan members said that the tax break acted as an incentive, and 40% said that without the 401(k) concessions they would not be saving at all. But tax incentives are likely to be of most benefit to the rich, who have more money to save; and those on lower earnings may find the tax rules too complicated. A survey of British savers by Aegon, an insurance company, found that few understood the concept of tax relief. It concluded that participation in pension plans would increase if the government were described as "matching" the amount of money put aside by workers.

The easy option

These days the pensions industry is calling on the wiles of the behavioural school of economics. Governments are trying to "nudge" people into doing what is good for them, as described in the eponymous book by two economists, Richard Thaler and Cass Sunstein.

The most popular nudge to do with pensions is auto-enrolment, which takes advantage of people's inertia. Traditionally, workers have been offered the chance to opt in to a pension scheme; this involved filling in a form and making a number of difficult decisions. Many could not be bothered. Under the nudge principle, workers are automatically enrolled in the scheme and actively have to opt out if they do not want to join. This has duly boosted participation.

In America auto-enrolment was approved in the Pension Protection Act of 2006 and was used by 57% of private-sector companies in 2010, with a further 15% planning to introduce it this year, according to a survey by Aon Hewitt, a consultancy. David John of the Brookings Institution suggests that the concept could be extended to small employers via an auto-IRA (individual retirement account), allowing businesses to offer employees a pension scheme at low cost.

In Britain auto-enrolment is at the heart of a new national pension scheme, the National Employment Savings Trust (NEST). Due to start in 2012, it is designed to deal with the 45% of workers without a private pension plan. In future all employers will have to offer one, and NEST offers them a low-cost option if they do not want to set up their own scheme. Economies of scale and limited investment choice will keep down charges.

The man behind NEST is Tim Jones, a former retail banker. He sees it as a technological and administrative challenge as much as an investment one. "Our aim is that if you can shop online at Sainsbury's, you can set up an account with NEST," he says. The new rules may persuade perhaps 5m-9m Britons to save for the first time, he reckons. The number that join NEST could range anywhere from 2m-6m.

However, auto-enrolment raises questions. Saving for a pension may not always be the best use of an employee's income. People with credit-card debts who are paying interest of 15-20% would be better off reducing their balances. In some countries (including Britain) means-tested benefits for low earners may be reduced in retirement if a pension is being paid.

Another problem is that the amount of money going into NEST may not be enough to generate a decent pension. Total contributions will be 8%, of which 3% will come from the employer, 4% from the employee and 1% from the government, in the form of tax relief. But that is less than the average contribution rate of private-sector DC schemes. The danger is that employers will be tempted to "trade down" to the new levels.

"It has been relatively rare for companies not to slash their contributions when they move from DB to DC," says Alan Morahan at Punter Southall, a consultancy. "There is a danger that auto-enrolment may exacerbate the trend as companies realise they have to make contributions for more people."

Moreover, the new system is being phased in very slowly, with contributions reaching their full level only in 2017, so employees now in their 50s will not get much out of it.

Edward Whitehouse, a pensions expert at the OECD, thinks that more time is needed to demonstrate that auto-enrolment actually works; the initial studies were based on just a small number of American companies. The success of New Zealand's KiwiSaver programme, which used auto-enrolment to boost participation, may have been due to the generous tax incentives being offered. In particular, Mr Whitehouse wonders what will happen when workers discover they can get a short-term pay rise by opting out of the system.

In America's corporate sector auto-enrolment is sometimes accompanied by auto-escalation. As workers earn more, their pension contribution goes up steadily. The hope is that they will barely notice the difference in take-home pay but that a higher contribution rate (perhaps 10-15% in total) will in due course allow them to earn a decent pension.

Make them pay

The alternative to auto-enrolment is compulsion, as practised in Australia since 1992. Employers there are required to contribute 9% (set to rise to 12% in 2019) of an employee's salary to a superannuation account. The system applies to all Australian workers except the very lowest-paid.

A report by the Brookings Institution found that about half the assets in the Australian scheme were held in self-managed or retail funds, which pushed up charges to an average of around 1.25% of assets. Members of the scheme are able to take all their benefits as a lump sum at age 55. There is no requirement to buy an annuity. Many people use the money to pay off their debts; some go on a spending spree. So they may eat up their savings and have to fall back on the state's means-tested benefit at 65.

In theory, being able to withdraw money from a pension scheme may persuade employees to contribute to it in the first place. But South Africa also offers access to pension savings, and research by Alexander Forbes, a consultancy, found that 70% of members were taking their benefits in cash before retirement. Ideally savers will not take advantage of that option. One answer would be compulsory annuitisation, which is what Britain imposed for many years. Pensions are subsidised through the tax system to generate a lump sum that can be used to buy a retirement income to prevent the elderly from becoming a burden on taxpayers.

If workers in DC schemes fail to buy an annuity, they face the risk that they may outlive their savings. Even those British workers who do buy an annuity tend to go for a flat-rate version, running the risk that inflation will erode their purchasing power.

The legal requirement to buy an annuity has been weakened in recent years. And British enthusiasm for annuities will have been dampened further by a European Court of Justice decision last month that stopped insurance companies from discriminating on the ground of gender. Traditionally, men have received higher annuity payouts because their life expectancy is shorter. In future, annuity rates for men-the main buyers of the product-will have to be cut, perhaps by 5%, to bring them in line with rates for women. In effect, men will be underpaid.

Employees in America do not like annuities. "People hate losing control of their money," says Seth Masters of AllianceBernstein. If their capital is tied up, pensioners may not be able to meet sudden health-care bills; they will be exposed to the credit risk of the insurer, which the collapse of AIG in 2008 showed to be a real danger; and in some cases their heirs may get nothing.

The American insurance industry has tried to get around this problem by offering variable annuities, which they like to call a "living benefit". The investor puts in a lump sum, which is guaranteed for repayment, and the insurer increases this guarantee at a set rate each year. The idea is to give investors both a level of security and some protection against inflation. But this market still attracts only a small fraction of DC assets.

That may be because investors suffer from a condition called "money illusion". They prefer having a lump sum to an inflation-linked income. As Tony Webb of the Centre for Retirement Research in Boston points out, a pension pot of $1m will buy an inflation-linked annuity of just $45,000 a year. "Retirees would go from being a millionaire to barely being in the middle class," he says.

This apparently low annuity rate reflects increasing life expectancy. If an American married couple both retire at age 65, there is a 50% chance that one of them will live to 90. But pensioners tend to underestimate how long they will live.

A further complication is that people's spending profile after retirement tends to be U-shaped. When they first leave work, they are still active and keen to travel and spend money. As they reach their mid-70s they stay at home more and spend less. In their 80s their costs may rise again because of higher health-care bills or because they have moved to a nursing home.

If workers are not required to use all of their pension pot to buy an annuity, it seems sensible to ensure they make provision for their basic needs. In a report on retirement design, Mercer suggests dividing the pension pot into three: one from which to draw income for the first 15 years after retirement, aiming at a 50% replacement ratio; a second to be set aside to meet the higher costs of advanced age; and the rest for discretionary spending.

But this will be possible only if workers learn to regard their DC plans as the basis for an income stream. According to Geoff Manville, head of government relations at Mercer, the Obama administration is looking into a policy change that would require DC sponsors to give members a rough idea of the level of annuity they might expect. That could be another nudge in the right direction.

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State of war

Taxpayers versus public-sector workers

AMERICANS ARE USED to debates on the financial health of their Social Security system at the national level, but many will have been caught unawares by a pensions crisis in their state and municipal governments. Already one small city-Prichard, Alabama-is unable to pay its pensioners. The crisis has exposed the potential conflict between public-sector

workers who still enjoy DB pensions and private-sector workers who get less generous DC pensions-and at the same time have to fund the benefits being paid in the public sector through their taxes. Years of underfunding mean that more contributions to public-sector plans are needed, and soon. But since most states have balanced-budget requirements, such contributions can come only from higher taxes or cuts in services.

Reform of public-sector pensions is inherently difficult. The biggest liability is promises made to existing employees. Court decisions have suggested that these promises cannot be withdrawn; states may not even be able to limit the future accrual of pension rights by existing workers. In California the Little Hoover commission, which in February reported to Jerry Brown, the state's governor, concluded that courts had protected employees' pension rights "as structured on their first day of work".

It seems odd that private-sector employers can restructure their pension plans and public-sector employers cannot. The best that local governments can do is change the system for new employees, a process that will take decades to bear significant fruit, or to increase employees' contributions. Even that amounts to a pay cut, creating the potential for dispute with the unions. In Wisconsin unions have swallowed higher contributions but balked at attempts to restrict their bargaining rights.

Putting off the evil day

The funding crisis in public-sector pensions is, in large part, the result of post-dated cheques written by politicians in the past. As Roger Lowenstein, a journalist, recounts in his book "While America Aged", there has been a "devil's pact" in which politicians granted benefits to unions without funding those promises properly.

A classic illustration comes from San Diego, California. In 2002 the funding ratio (the proportion of pension liabilities covered by assets) of the city's pension scheme dropped close to 82.3%, a level that should have triggered a rise in the contribution to make up the shortfall. That would have required a tax increase. To avoid this, the city did a deal with the unions whereby it would raise future benefits in return for not having to lift contributions. In other words, faced with a hole in the fund, the authorities dug deeper.

In theory, states and municipalities are required to make an actuarially determined contribution to their pension funds each year. In practice, some have failed to make such contributions in the face of budget pressures (New Jersey is a repeat offender). That means they are implicitly relying either on the investment portfolio to bail out the fund or on future taxpayers to contribute even more to make up the shortfall. But the stockmarket has stagnated since 2000 and state coffers have been bare.

The bill is now coming due. The Little Hoover commission estimates that contributions to California's public-sector pension funds will have to rise by 40-80% in five years' time and stay at those levels for decades. In Los Angeles, total retirement costs (including health care) already make up 18% of the city's budget, a share that is set to rise to 37% by 2015. In New York, the Manhattan Institute reckons that the taxpayer's contribution to the teachers' fund will have to rise from $900m now to $4.5 billion by fiscal 2015-16.

Voters are furious, and have been outraged even more by two related issues. One is the lavish pensions paid to retired city and state executives; in California, over 9,000 such pensioners are getting more than $100,000 a year. The second is "spiking". In a final-salary scheme, earnings in the last year before retirement can be crucial in determining the pension; these can be boosted by, for example, offering the employee a promotion or a large amount of overtime. Some states have now moved to making pensions dependent on average income over several years.

To be fair, fat-cat pensions in the public sector are far from typical. According to Alicia Munnell of the Centre for Retirement Research in Boston, the mean public-sector pension is just $20,000 a year, well below the average wage. But public-sector workers still seem to be getting a better deal than their private-sector equivalents, who usually have to work for 40 years to get full benefits. In the public sector the qualifying period is often shorter; in California, for example, highway patrol officers retire at 50, after an average of 28 years of service.

This is partly an accounting issue, of which more in the next section. But it also raises questions of transparency. Neil Record, a fund manager, argues that the pay deal offered to a DC plan member is clear; it consists of basic salary and the employer's contribution to the plan. A DB member, by contrast, gets his salary plus the employer's promise to make up any pension-fund shortfall. This guarantee is very valuable, particularly when markets plunge, as they did in 2008. So comparing the public and the private sector becomes extremely difficult and taxpayers cannot tell whether they are getting a good deal.

Creditors, as well as taxpayers, are waking up to the scale of the problem. In January this year Moody's, a rating agency, published research showing combined totals for individual American states' public and pension debt. It used the pension funding ratios calculated by the states themselves, which almost certainly understate the size of the hole. Measured by the ratio of this combined debt to state GDP, Hawaii has the biggest hole, with a ratio of 16.2%. Thirteen other states have ratios of more than 10%. Those figures may sound modest, compared with the 100%-plus ratios seen in Greece and Japan. But the states do not have first claim on their GDP; the federal government deducts its share through income and corporate taxes, so citizens of those states need to service both their own burden and the federal debt.

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A storm in the windy city

When pension promises become unaffordable

ILLINOIS AND ITS largest city, Chicago, epitomise much of what is wrong with pensions in America. A commission set up by the previous mayor, Richard Daley, found that, even using the most generous accounting method, in 2009 the city's four largest schemes were just 43% funded, with a combined deficit of $14.6 billion.

In February the state borrowed $3.7 billion from the bond markets just to fund its pension contribution. Such an issue is, in effect, a gamble that the fund can earn more from its investment portfolio than it pays on the bonds (as much as 6% for those maturing in 2019). Similar bonds have been issued by other states, but an analysis by the Centre for Retirement Research in Boston concluded that they were generally issued "by the wrong governments at the wrong time". State governments are unlikely to have the market-timing skills of hedge funds.

The battle lines are being drawn. Rahm Emanuel, Chicago's new Democratic mayor, acknowledged the need for pension reform in his campaign, which cost him union support. Mike Quigley, a Democrat who succeeded Mr Emanuel in his Congress seat in 2009, says that "pension reform is the can that has been kicked farthest down the road."

For the unions, the answer is simple. Workers have been contractually promised pension benefits and have made their required contributions each year. It is no fault of the workers that the state has not funded the pensions properly, or that a banking crisis has caused the stockmarkets to underperform. Hank Scheff of the American Federation of State, County and Municipal Employees (AFSCME) thinks the answer lies in the tax system: "Illinois has an antiquated financial structure with a flat income tax and a narrow sales-tax base." AFSCME points out that, for all the adverse publicity about

lavish provision, the average public-sector pensioner in Illinois receives only $22,000 a year. Almost nobody works for the 45 years needed to retire on a full pension, worth 75% of salary.

In the absence of reform, there will be a big hole for taxpayers to fill. Take the funds with the most generous benefits, those covering the fire service and the police. The state has proposed bringing up the plans to a 90% funding ratio over the next 25 years, but even with that leisurely timetable it will be costly. Gene Saffold, the chief financial officer under the previous mayor, says the plan would involve an increase in the city's contribution from $272m in 2010 to $865m in 2015. The state would raise this money from property taxes, triggering the largest property-tax hike in the city's history.

So instead Mr Saffold proposed aiming at a funding ratio of 80% within 50 years, with employees' contributions being raised by 1% a year for three years from 2015. But that would still cause the city's contribution to double. And any tax rise to deal with the pension hole will come on top of the jump in state income taxes from 3% to 5.25% and a significant increase in business taxes unveiled this year to deal with the running deficit.

Tug-of-money

Will such money ever be paid or will taxpayers revolt? "What I tell the folks in the unions is that these pension promises are a mirage. The money isn't going to be there," says Mr Quigley. So the stage may be set for a legal and constitutional battle in which the authorities try to reduce the pension bill and the unions challenge them in court.

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Pick a number, any number

The discount rate makes all the difference

HOW SHOULD A pensions promise be valued? Clearly, it is not as simple as comparing the benefits paid with contributions received each year. Offering a pension to an employee today will involve payments decades into the future. Those future payments have to be discounted at some chosen rate to calculate the current value of a pension scheme's liabilities and to allow the employer to select the right contribution rate.

In the late 20th century the actuaries who advised pension funds thought a high rate was appropriate. Pensions are a long-term liability, so the employer can take a long-term view, buying equities and riding out the vicissitudes of the market.

This will earn a higher return (the so-called equity-risk premium) than can be got from government bonds or cash. The contribution rate can be set to reflect this higher expected return.

For a while this view seemed to be borne out by the long bull market in equities. Many pension schemes were in surplus, allowing employers to take contribution holidays and to improve benefits. Few were inclined to question the numbers. "In the old days the actuaries were like Catholic priests handing down the word of God, in Latin, to the masses," says John Ralfe, a pensions consultant.

But in the late 1990s the approach came under increasing attack from a school dubbed the "financial economists". They argued that the equity-risk premium, as the name suggests, was a reward for risk and could not be guaranteed. Even if equity returns were disappointing, pensions still had to be paid. In effect, pensions are a debt like any other, and should be discounted with a bond yield.

Furthermore, given the bond-like nature of the liability, pension-fund sponsors were in effect borrowing money to invest in risky assets. Companies should thus try to match their assets with their pension liabilities, buying bond-like investments.

This reasoning gained further force when accounting standards were changed, initially in Britain, to make companies use the AA-rated corporate-bond yield to discount their liabilities. This meant that sudden falls in the equity market, or changes in bond yields, had a big impact on a company's balance-sheet. As it happened, the accounting change was followed by the big bear market in equities of 2000-02.

Now this debate has moved to the public sector. American public-sector pension funds still discount their liabilities by an assumed rate of return, often 8% a year. Some still argue that, because public-sector bodies will always be around, they can afford to take a long-term view. But economists such as Joshua Rauh of Northwestern University in Illinois argue that a pension promise is a senior debt. When the city of Vallejo in California declared bankruptcy, bondholders were offered 5-10 cents on the dollar but pension benefits were left untouched. That makes it seem logical to use a risk-free rate, like the Treasury bond yield, to discount the liabilities. On that basis, the unfunded liabilities of individual state pension funds are more than $3 trillion, compared with $1.2 trillion using the accounting method adopted by the states themselves.

Congressman Devin Nunes of California has put forward a bill that will require states to move to more transparent accounting, on pain of being barred from issuing tax-exempt municipal bonds. Since these are a vital source of state financing, more transparent accounting will in effect become compulsory if the law passes. "I tried to look into the pensions problem in California and discovered that you couldn't find the information," says Mr Nunes. "But the bill will create a one-stop location for the information."

The problem with underfunding a public-sector pension scheme is twofold. First, it assumes that the employer will be able to make larger contributions in future to fill the hole, which may be unrealistic. Second, if a fund has to sell assets at market lows to pay benefits, it will not be able to take full advantage of market rebounds.

The argument is complicated enough when it comes to funded pensions. But what about unfunded ones? Taxpayers, and government bondholders, have the right to know the value of such promises. That was the conclusion of an advisory group in Britain that reported on the subject last month.

Unfunded schemes cannot use the assumed rate of return on their assets because they do not have any. One possible measure would be the growth rate of the economy, since tax revenues (which will fund the pensions) should rise in line with GDP. The problem lies in estimating the future growth rate. In 1990 the Japanese government would have forecast a much higher growth rate than it actually achieved.

The financial economists say that the discount rate should be based on the inflation-linked government bond yield, because British public-sector pensions are inflation-protected. As index-linked yields are currently very low (below 1% in real terms), that makes the British shortfall on public-sector pension funding look very large, at around pound1 trillion, or 81% of GDP.

Any market-driven rate has its problems. One reason why the British inflation-linked yield is so low is that so many pension funds own the bonds for accounting reasons. Perversely, therefore, the more they try to hedge their liabilities, the bigger they get. In addition, real yields have been highly variable. "Using a market discount rate can introduce a spurious degree of accuracy and a lot of volatility," says Chris Curry of the Pensions Policy Institute in London.

The details may seem arcane, but huge sums are at stake. Actuaries, the backroom boys of finance, may yet find themselves at the heart of political debate.

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Sharing the burden

Reforms are inevitable. The only question is what sort

THIS SPECIAL REPORT has shown how the cost of providing pensions is rising across the developed world as the baby-boomers retire. Rich countries now face difficult trade-offs. They must keep costs in check without condemning many elderly people to decades of poverty. And if they move from a tax-funded system to one dependent on the performance of the stockmarket, more risks and costs will pass to the workers.

There is no perfect set of reforms because no two countries are starting from the same place. The OECD finds that the current net replacement rate from all pension income for a worker on average earnings ranges from under 40% in Japan to over 111% in Greece. In a survey conducted by Mercer that ranked the overall pension systems of different countries by criteria such as adequacy and sustainability, no country was awarded an A grade; the best-performing countries (the Netherlands, Switzerland, Sweden, Australia and Canada) got a B. But at least all countries avoided the bottom mark, an E.

The best way of reducing the overall pensions burden, almost everyone now agrees, is for people to work longer. They will get paid for the extra years, national output will be boosted and the cost of pensions will fall. Reforms are already pushing workers in that direction. Thanks to the steady demise of defined-benefit schemes in the private sector, employees will be more prepared to do so because they need to build up higher pensions in defined-contribution schemes. And as the supply of younger workers dries up, employers will become more willing to use older ones. With rising life expectancy, the pension age across the board is probably heading for 70.

Inevitably, however, some workers will be physically unable to go on working into their late 60s. Any increase in the retirement age will have to come with a safety net for such people, which will reduce the potential savings.

An increase in the retirement age on its own is unlikely to be enough. Broadly speaking, the sort of reforms required depend on whether a country's system is mainly pay-as-you-go or funded, and whether it offers DB benefits linked to final salary or whether it has a significant DC element. For countries with PAYG schemes, the first step is to increase the present retirement age-and then to link it to future increases in longevity.

You know it makes sense

The second step is to halt the widespread practice of retiring long before the official pension age. This should be allowed only if benefits are reduced on an actuarially sound basis, and ideally only if those concerned are genuinely unable to work. Martin Baily and Jacob Kirkegaard of the Peterson Institute reckon that in the European Union eliminating retirement before the official age would offset the effect of ageing populations for the next 20 years.

Countries on a PAYG system are usually stuck with it for the bulk of their pension provision, even if they believe that making workers more responsible for their own pensions would increase the national saving rate. Switching to a funded model would involve making current taxpayers pay twice: once to fund existing pensioners and again to fund their own pensions.

Notional DC schemes get around this problem by dispensing with a fund. Employees accrue a notional benefit each year which is converted into an income at retirement, using annuity rates. This keeps the lid on costs and at the same time encourages people to keep working (since annuity rates rise with age). Italy, Poland and Sweden have all introduced versions of notional accounts in recent years. But such arrangements still leave taxpayers on the hook for pension costs.

If higher retirement ages in countries with insurance-based state schemes do not make them actuarially sound, then taxes should be increased, or benefits reduced, until they are. If benefits are cut, those on the lowest incomes need to be protected.

In countries where DB schemes remain in place, largely in the public sector, switching to pensions based on a career average rather than final salary would make sense. As the European Commission puts it, "basing pensions on a limited number of best or final years tends to be regressive, because the people with final or best years substantially above their lifetime average earnings tend to be those that earn the most."

Public-sector employees should not be retiring sooner than private-sector ones, but aligning the pension age across the board will have to be handled sensitively, since many workers will have planned their lives in the expectation of being able to retire early. The proposals in Britain's Hutton report seem sensible: allow workers to keep their existing rights but link any future pension rights to the state pension age.

In America, though, even such modest reform does not seem to be possible at the moment. With a more favourable demography than Europe, a growing workforce and a well-developed pensions market with assets of more than 100% of GDP, it is odd that the country should have a pension problem at all. Yet in many states the current legal position appears to be that the pension rights of existing workers, both accrued and yet to be earned, cannot be touched, and that may include the age at which they are able to retire. Individual states will have to tackle this issue one by one, either by changing the law or by amending the constitution. But it could take a severe fiscal crisis, threatening default on municipal debts, to generate the political will for reform.

Josh Barro of the Manhattan Institute in New York suggests giving public-sector employees three options; a DC plan with lower contributions; a DB plan that will accrue benefits at a slower rate on existing contributions; or a DB plan that preserves existing benefits but with much higher contributions. The boldest step would be to switch public-sector workers to DC schemes, bringing them in line with the private sector. Such schemes suit a more flexible workforce, boost the job prospects of older workers and prevent employers from turning into mini-insurance companies, the plight that befell America's carmakers. The downside of DC schemes is that contributions tend to be lower and investment risk (and, in many cases, longevity risk) switches to the employee.

Contribution rates can be increased with the help of "nudge" measures such as auto-enrolment and auto-escalation. Seeing friends and neighbours struggle with inadequate pensions can be a powerful incentive to save more. Employers can help by regularly projecting the likely level of income that their employees' pension pots will generate.

That leaves the problem of bad investment decisions. Large employers now opt for target-date or "lifestyle" funds which, although far from perfect, at least give workers a diversified portfolio. The costs of such plans need to be closely watched, however, since they can represent a large drain on the pension pot.

Denmark gets around many of these difficulties with its collective DC system. This scheme, known as ATP, is compulsory for all employees and is designed to top up the basic state pension. Economies of scale keep costs very low, at 0.04% a year. Benefits are linked to annuity rates, protecting both the scheme and the pensioners from annuity risk. Inflation-linking is offered only when the scheme can afford it. However, both the contributions paid and the benefits provided are relatively low. If they were higher, the system might be regarded as an onerous form of taxation rather than a benign savings plan.

That is the problem with pension reform. None of the solutions-a longer working life, higher taxes, lower benefits, saving more-is likely to be popular. But the rich world's pension planning has seriously fallen short. The sooner that shortfall is tackled, the easier it will be.

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"Underfunded Teacher Pension Plans: It's Worse Than You Think", by Josh Barro and Stuart Buck, Manhattan Institute, April 2010

"New York's Exploding Pensions Costs", by E J McMahon and Josh Barro, December 2010

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Corporate governance

The shareholder awakens

Companies' owners are slowly beginning to hold bosses to account, starting with closer scrutiny of their pay

THE nuns who are challenging Goldman Sachs's claim to be doing "God's work", by bringing a shareholder resolution questioning the bank's executive-pay policies, are but the tip of an iceberg. Thanks to a "say on pay" clause in last year's Dodd-Frank financial-reform law, the pay of every senior executive of an American public company is now subject to a shareholder vote. So far in this spring's corporate annual-meeting season, the management has lost such votes at four firms, the most prominent being Hewlett-Packard, a computing giant. Given the current mood of banker-bashing, it will be no surprise if there are similar results at Goldman Sachs and other financial institutions: all eyes will be on the first of the big banks to hold its vote, Citigroup, on April 21st.

A new study by the Corporate Library, a research body, finds plenty for shareholders to vote against. It looks at those big companies that had, by March 20th, reported their bosses' pay-about a fifth of the S&P 500. Almost all reward them for long-term performance without considering whether similar firms are doing better. More than 75% of chief executives still have "golden parachute" severance deals worth at least twice their annual pay.

In the past year things have got worse in three main respects, argues the Corporate Library. The difference between the chief executive's pay and that of other executives has grown. The dilution of other shareholders by awards of shares to executives has increased. And retirement benefits have become even more excessive.

It remains unclear how managers will respond to losing a vote on executive pay, as these votes are not binding. Occidental Petroleum, one of three firms that were defeated in the far smaller number of "say on pay" votes held last year, is rumoured to be working on big changes in its pay policies, following criticism of the bounty enjoyed by its chief executive, Ray Irani.

However, says Robert McCormick of Glass Lewis, a firm that advises shareholders on how to vote, some managers are already trying to avert defeat by giving in to shareholder pressure before the issue goes to a vote. Disney, for example, issued a new proxy form (the document describing what shareholders will vote on) that cut the size of its bosses' golden parachutes, after investors' grumbles.

Experience from Britain, which introduced say-on-pay in 2002, suggests that American shareholders can expect more improvements in the responsiveness of executives. Although few pay packages have been voted down by shareholders, that is because it is now routine for British executives to consult investors on pay policy long before it goes to a vote. Colin Melvin of Hermes Equity Ownership Services, which advises institutional investors on such matters, says the overall result has been much better communication between managers and shareholders. In contrast, he says, American bosses still seem disinclined to have such a dialogue.

That is certainly true of this year's other hot topic for American shareholder voting: resolutions pressing companies to disclose their political donations. Such resolutions have proliferated since a Supreme Court decision last year to overturn restrictions on corporate political spending. Citigroup's bosses, for example, will oppose a motion from some shareholders calling on them to disclose the bank's donations.

Although the signs of progress are clearer in Britain, institutional shareholders there are coming under pressure to do more to hold company bosses to account. Last month FairPensions, a lobby group, issued a report calling for a tightening of the fiduciary-responsibility law for pension funds, insurers and other big investors who manage people's money. The group wants to force these to play a fuller role in corporate governance and to disclose how they vote their shares. A similar change is said to be under discussion in America, including within the Securities and Exchange Commission.

Further reforms would be welcomed by activist investors such as Nelson Peltz, who has a long record of battling entrenched managers at firms as varied as Heinz and Tiffany. Speaking to America's Council of Institutional Investors this week, Mr Peltz said that say-on-pay and other recent improvements to corporate governance will help shareholders like him take on previously "untouchable" corporate giants. Martin Lipton, a lawyer who has often defended managers against shareholder attacks, worries that activists like Mr Peltz would be able to use the new rules to embarrass big institutional investors into backing their campaigns. Would that be such a bad thing?

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The troubles of Saab

A phoenix struggles to fly

Separated from GM, a Swedish carmaker finds the going tough

Will Saab rise again with the PhoeniX?

SAAB has a history of defying the odds, as it did in early 2010 when a last-minute deal saved the Swedish carmaker from insolvency. At the Geneva motor show last month it sought to demonstrate its revival by showing off the PhoeniX, a sporty prototype which will be the template for the next decade's models. Behind the scenes, however, things look less rosy. This week Saab's assembly line in Trollhattan suffered the latest in a series of stoppages because unpaid suppliers had halted shipments of parts and materials. The company said it had resolved the problems with some of the suppliers and was talking to the rest.

Victor Muller, a Dutch entrepreneur who pulled off the unexpected acquisition of Saab from General Motors, acknowledges that it is struggling, though he insists that it is closer to a turnaround than sceptics say. Under GM, Saab ran up huge losses, and it has stayed in the red under its new owner, Spyker Cars, which reported a euro218m ($289m) loss for 2010. Still, that is half the deficit of the year before, and Spyker might have been even closer to breakeven, says Mr Muller, had Saab not been shut for several months during the transfer of ownership.

Sales of Saab's updated 9-5 flagship model have been growing steadily, and it will shortly start marketing its first "crossover-utility vehicle" (an ordinary car made to look like a rugged off-road vehicle), a critical addition to its line-up. Next year the PhoeniX will be transformed into a replacement for the brand's bread-and-butter model, the 9-3. It will also let Saab cut its dependence on GM. Mr Muller thinks the Swedish firm's managers can do better by forming other alliances, such as a recently signed deal that will provide it with BMW powertrains for future models.

Mr Muller has lined up new distribution arms in China and Russia, two big markets hungry for fancy cars. He hopes they could help Saab gain enough momentum to push its total sales to around 80,000 a year, the point at which it should break even. Last year the company, having hoped to sell about 50,000 cars, managed to shift only 28,000. Even so, Joe Phillippi

of AutoTrends Consulting points out that the brand routinely achieved annual sales of a lot more than 80,000 in the decade of GM's ownership (see chart).

How soon that point can be reached is uncertain. Vladimir Antonov, a Russian businessman who co-founded Spyker, does not think Saab will get there in 2011, and even Mr Muller has tempered his earlier optimism, admitting that profitability will not be possible before 2012. Mr Antonov was in effect pushed out of Spyker by GM, which refused to negotiate a deal while the Russian was on board. But in February he bought out the separate sports-car business that Spyker operated under its own name. And Mr Muller is now said to be seeking Mr Antonov's return as a shareholder in Spyker, to shore up Saab's finances.

Mr Muller insists that despite its hiccups with suppliers, Saab still has more than euro200m left from a loan provided last year by the European Investment Bank (the European Union's development bank). The company appears to be gaining strength; its sales in America, in particular, seem to be recovering quickly. But it is in a race against time: models based on the PhoeniX need to start flying out of the showrooms before it runs out of money.

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Germany's nuclear operators

Decaying faster

Last year's reprieve for the nuclear-power industry was too good to last

SIX months ago Germany's four biggest power companies thought they had a deal: the lives of their 17 nuclear plants would be extended for an average of 12 years. In return they would pay a nuclear-fuel tax totalling euro14 billion ($20 billion) over six years and contribute euro200m-300m annually to a renewable-energy fund. But after Japan's disaster last month the German government told them to shut their seven oldest plants. They will probably never reopen, and the lives of the others are likely to be shortened. A government commission on the nuclear plants will report its findings at the end of May.

On April 1st RWE, which runs five nuclear plants, challenged the shutdown in a court in Hesse, a state which is home to two of them. E.ON, which operates six plants, says it may still challenge the nuclear-fuel tax; but it tacitly supports the shutdown. So do Vattenfall of Sweden, which operates two, and EnBW, which runs four.

It is not clear that the nuclear operators are losing much from the standstill. As summer approaches they have enough capacity in conventional and renewable power or can buy from abroad: recently, imports have uncharacteristically outstripped exports. Yet electricity-futures prices on EEX, the Leipzig energy exchange, have risen by about 10% since mid-March and industrial power consumers are spooked by the uncertainty, wondering whether to hedge now or wait.

The medium-term outlook for the power companies is bleaker. RWE and E.ON have joint plans to build up to four nuclear-power plants in Britain, but the taste for new nuclear may desert even the British. All four big German operators are working hard to replace their nuclear capacity (about a quarter of their combined total) with renewable power or gas-fired plants. But the real challenge for Germany is to create an efficient grid to deliver power from future wind-farms in the north and solar arrays in the south to the industrial heartland around the Rhine and the south-west. About 4,500km (2,800 miles) of new high-voltage lines are needed, which would cost around euro11 billion to build. The obstacles are bureaucracy and nimbyism. So far, only 80km have been built.

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The oil industry

Refined tastes

The big oil firms are offloading their refineries to different kinds of buyer

The bright lights of Stanlow

THE twinkling lights of an oil refinery at dusk show the potential for beauty in industrial landscapes. But the dramatic silhouettes, part ocean liner, part funfair, disguise the difficulties within. Decades of poor returns from turning crude oil into petrol, diesel and other fuels have convinced the Western oil giants to get out of the business. In their place come mainly state-run oil firms from Asia, the Middle East and Latin America, and private equity.

Essar, an Indian conglomerate, this week paid Shell $1.3 billion for the Stanlow refinery in north-west England. In February, state-owned PetroChina paid $1 billion for a half-share in Scotland's Grangemouth refinery and in another at Lavera in the south of France. Many more refineries are for sale in Europe and America. Britain's BP, which is raising cash to pay the bill for the Deepwater Horizon oil spill, wants to sell two huge ones in America. Valero, an American refiner, may show interest, though it has just bought a plant in Wales from Chevron for $1.75 billion.

American private-equity firms may also be taking a look at BP's plants. According to FACTS Global Energy, a consultancy, over the past two years private-equity buyers have snapped up refining capacity of around 1m barrels of crude a day (b/d). State-backed oil companies, such as PetroChina and Russia's Rosneft, have bought nearly the same amount.

The refining business has suffered from chronic overcapacity, and thus weak margins, since the 1970s oil shocks, which led to a slump in the use of oil-based fuels for generating electricity and heating homes. A respite came in 2005-07, as a buoyant rich world and increasingly thirsty emerging economies boosted demand. But that was a high point that the rich world may not hit again. Demand for petrol in America has fallen, and may never regain its previous peak. Refining margins, having touched $4.50 a barrel, are down to one-tenth of that and still falling.

It makes sense for big Western oil companies to get out of such an unprofitable business and put the capital into exploration and drilling. But refineries' weak margins are not deterring oil firms from emerging economies from buying them. One reason is that they are going cheap. This gives the buyers access to declining but still sizeable rich-world markets. Such access is especially useful for those with ambitions to become global oil traders.

As they buy refineries abroad, emerging-market firms continue to build them back home, where demand is still booming. For those firms owned or backed by their home governments, there are other considerations besides commercial ones. China, although it is set to remain a big importer of crude, is desperate to become at least self-sufficient in refining. By 2015 it will boost its domestic capacity by 20%, taking the total to 12m b/d. Middle Eastern oil producers are also building refining capacity to add value to the crude that they pump out of the ground.

So why buy?

All this extra capacity will keep global refining margins under pressure for at least another five or six years, believes Francis Osborne of Wood Mackenzie, a consultancy. That may not bother state oil companies much, but it ought to worry private-equity firms. So why are they buying? First, because prices are so low. Second, because they are looking optimistically to the long term. Martin Brand of Blackstone, a private-equity giant that has bought three refineries in America in recent years, thinks margins will have recovered in ten years' time, and in the interim there will be plenty of efficiency gains to be made.

Others are sceptical. The European and American refineries' new owners will be far less likely to close them than their old ones. In the absence of such a rationalisation of capacity, thinks Gemma Gouldby of FACTS Global Energy, margins will stay poor indefinitely. If so, the Western oil majors will be glad they got rid of them.

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E-commerce and data security

The phishers' big catch

A large theft of company e-mail lists causes controversy

AN OUTRAGED consumer-advocacy group is calling it "the Fukushima of the e-mail industry". Comparing mere data theft to Japan's nuclear nightmare is perhaps a bit over the top. But the theft of data from Epsilon, a marketing-services company, has nonetheless caused widespread concern. On April 1st Epsilon revealed that an outsider had managed to get hold of the e-mail addresses and names of some individuals that it held on its system. Many millions of records are reportedly involved, although Epsilon, which is still investigating the cause of the leak, refuses to confirm the exact number.

This is hardly the first time that a big security breach has led to the mass theft of digital data. But the fallout from the Epsilon debacle will spread far and wide. The company sends out more than 40 billion e-mails a year on behalf of many of America's biggest companies, including Target, one of the country's largest retailers, JPMorgan Chase, a bank, and the *McKinsey Quarterly*, a management journal. Marks & Spencer, a big British retailer, was also among those whose e-mail list was stolen.

Epsilon says that only 2% of its 2,500 clients have been affected by the leak, but given the size of some of those outfits, this is not much consolation. Many of the firms involved have been scrambling this week to let their customers know-by e-mail, inevitably-that their personal data may have been compromised.

Some security experts argue that the fuss over the leak is overblown. They say that e-mail addresses are far less sensitive pieces of information than, say, medical or financial records. People often post their addresses on their Facebook pages, or print them on their business cards. Bruce Schneier, an internet-security expert, thinks it is a bit like worrying about spammers stealing a copy of the telephone directory. All it would do is make their task a bit easier.

Other observers are taking the leak more seriously because the thief stole, in effect, companies' customer lists and this would allow anyone who buys the lists to aim carefully crafted e-mails at those customers that appear to come from trusted businesses, asking them to "update your account details" or otherwise reveal further sensitive information, a scam known as "spear-phishing". Conde Nast, publisher of *Vogue*, recently lost almost $8m after falling for a fake e-mail purportedly from one of its printers, asking it to divert payments to a different bank account.

If a flood of dodgy e-mails does now appear, it will certainly damage the reputations of the firms that gave Epsilon their customers' data. Many of them, including Marriott International, a hotel chain, have been quick to blame the marketing firm for the leak and to alert their customers to the risks. But this may not be enough to spare them from criticism. "Given the size of Marriott, why would you trust a third party to have this [customer] information in the first place?" wrote a disgruntled commenter on the hotelier's website.

Customers may ask themselves whether companies that cannot keep a simple e-mail list safe can be trusted with more sensitive things, like their credit-card details. They also have reason to worry that other, more serious, leaks are being hushed up. "The Epsilon case is just the public tip of an iceberg," says Jeff Hudson of Venafi, a data-security firm. Many instances of data loss, he says, are simply not reported.

Epsilon's leak comes at a time when the authorities in America are taking a hard look at the way people's electronic data are dealt with. On April 4th it emerged that federal prosecutors in New Jersey are examining how software applications for smartphones collect and share data, amid suspicions that privacy laws have been broken in some cases. Government officials are also formulating new online-privacy rules that will give people greater control over the way information is collected about them on the web. The Epsilon episode will surely encourage them to take a strict line on all sorts of data-handling.

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Mobile telecoms in Africa

Digital revolution

Makers of mobile devices see a new growth market

So many ways to get connected these days

SUB-SAHARAN Africa has long been deprived of the cornucopia of media enjoyed in richer places. It was not until China began to export $50 black-and-white televisions to Africa about a decade ago that broadcasting took off outside the main cities. That new, much bigger market has led to big changes. Asif Sheikh of A24, an online-news channel in Nairobi, says Kenyan broadcasters have gone from showing almost exclusively Western-made programmes in 2005 to 80% African ones now. Local content is booming in other media too: talk radio, music videos and televangelism have all proved lucrative. But for all types of content, everyone agrees that the next big business opportunity is in mobile devices.

The arrival of three submarine cables to Africa in the past year has quadrupled data speeds and cut prices by 90%. Since mobile-phone coverage is far better than fixed-line availability, the result has been that the cellphone is swiftly becoming Africa's computer of choice. By some counts there are already 84m mobiles in Africa with at least rudimentary internet connectivity. A $90 smartphone made by China's Huawei and running Google's Android operating system sold out in several African countries in less than a month.

Nokia claims a market share of 58% in Africa. The Finnish company ranks with Coca-Cola as the continent's most recognised brand. But recently sales of the company's higher-end phones have collapsed in larger African markets, with Samsung, Huawei and RiM, maker of the BlackBerry, the main beneficiaries. Given that the BlackBerry is priced for big corporate customers, its popularity is remarkable. RiM's head for Africa, Deon Liebenberg, says strong demand has prompted it to rush out more modestly priced consumer models.

Still, it is too early to count Nokia out. Some 90% of mobiles sold in Africa are basic models in which Nokia still dominates. The $30 Nokia 1100 handset remains the Kalashnikov of communication for the poor: 50m of them are in use in Africa. A souped-up version of the 1100, expected soon, will need to offer a better screen, internet connectivity and ideally some access to social-networking sites like Facebook and Twitter, all without sacrificing durability and price. If Nokia can achieve this, it could regain its edge.

For those who want to sell entertainment, however, the future is written on tablets. Here, Samsung has stolen an early lead with its Tab. Though it now costs around $500 in Africa, Erik Hersman, a tech expert in Nairobi, expects its price to fall by half in the coming year. Apple so far shows few signs of bringing the iPad within reach of most Africans. Similarly, RiM says its Playbook tablet computer, due out in Africa in June, is meant to appeal to senior executives and civil servants. Wholesale buyers in Africa think the market will take off once tablets drop below $200.

Nokia refuses to be drawn on whether it will build a tablet equivalent of its rugged 1100 phone. But its head of sales for Africa, Brad Brockhaug, is certain that tablets cheaper than Huawei's $90 Google phone will be commonplace in Africa by 2014. Nokia's boss, Stephen Elop, says the company will invest heavily in customers in Africa and Asia who have a mobile-phone signal but no internet experience. If Nokia dallies it may be left behind by rivals who are already launching cheap tablets.

Whether on mobile phones or tablets, being online is rapidly becoming the norm in Africa. That will boost the continent's information and entertainment business and allow African media houses such as the Nation Media Group (in the east) and Media24 (in the south) to expand their businesses around digital content tailored to local languages and markets. Western content-makers will no doubt worry about the increased risk of piracy, but if they get their offerings right Africa will be a huge new market for their wares too.

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Indonesia and monopolies

Last of the big-screen baddies

One company's tight grip on film imports is a flashback to the Suharto era

Now disappearing from a screen near you

INDONESIAN cinephiles may be in for a disappointing year. Since February imports of Hollywood films have been on hold, and cinemas are running short of new ones to screen. The reason is a row over a fairly small amount of tax. Indonesia's tax authority has started enforcing a long-neglected rule that the royalties on imported films are taxable as well as the physical reels of celluloid. It is demanding 31 billion rupiah ($3.6m) in back taxes for the past two years' worth of imports. While the importers appeal against the decision they have stopped bringing new Hollywood blockbusters into the country.

The dispute has brought into the limelight a small but rapidly growing industry that is a vestige of what was once a web of monopolies and cartels that enriched relatives and cronies of the Suharto regime at Indonesians' expense. Friends and family of the former dictator enjoyed exclusive franchises over whole industries, from essentials like flour and cement to luxuries like films. From the 1980s the Hollywood studios had to distribute their output through Group 21, a company in which one of Suharto's cousins then owned a stake (his family has since sold this).

When Indonesia's economy collapsed in 1997-98, bringing the regime down with it, the IMF insisted on the dismantling of the monopolies as a condition of giving aid. A fair-competition agency, the KPPU, was created, and Suharto's successors opened up industries such as telecoms, banking and civil aviation. The entry of new competitors, Indonesian and foreign, has brought great benefits to consumers.

With their patriarch out of power and their monopolies busted, the Suharto family's ventures have largely fallen by the wayside, though the wealth they amassed in the bad old days has spared them from hardship. Of the firms set up by the former regime's cronies (ie, friends but not family), many are surviving in the new, competitive world, albeit without the dominance they once enjoyed. Indonesia is still plagued by corruption, red tape and rent-seeking, but its politics are so fluid that it is difficult for tycoons to lock down permanent gains, says Hal Hill, an expert at the Australian National University.

In the cinema business, however, the wave of liberalisation has been slow to arrive. The three largest film importers, which between them control the local distribution rights to all Hollywood blockbusters, are all part of Group 21, which also owns the country's dominant cinema chain, Cineplex 21. It had the market almost to itself until 2006, when a new chain, Blitz Megaplex, began opening screens in shopping malls. In 2009 Blitz complained to the KPPU about Group 21's dominance of distribution and the impact of this on rival cinemas, but the case was dismissed for lack of evidence. Today, Group 21, which declined to talk about the case, still controls more than 500 of Indonesia's 600-odd screens.

Although some would like the KPPU to have been tougher in this and other cases, that the country has such an independent competition regulator puts it ahead of some of its peers in the region, notes Edimon Ginting, an economist at the Asian Development Bank. In 2010 the World Economic Forum placed Indonesia 35th out of 139 countries in terms of efficient trustbusting, a bit better than its overall business-friendliness ranking of 44th.

By Asian standards, Indonesia's box-office takings are modest: around $150m in 2010, one-tenth of China's. But they have doubled in the past five years (as has indigenous film production, which withered in the repressive Suharto era). Ananda Siregar, Blitz's boss, worries that the row over import duties will lead to a prolonged drought of American blockbusters, halting that strong growth. Tax officials have said that their crackdown against Group 21 has only just begun. But instead of simply taxing the company more, it would be better if the authorities could find a way of giving its rivals a better chance at competing.

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Legal disclaimers

Spare us the e-mail yada-yada

Automatic e-mail footers are not just annoying. They are legally useless

"IF THIS e-mail is received in error, notify the sender immediately." "This e-mail does not create an attorney-client relationship." "Any tax advice in this e-mail is not intended to be used for the purpose of avoiding penalties under the Internal Revenue Code." Many firms-*The Economist* included-automatically append these sorts of disclaimers to every message sent from their e-mail servers, no matter how brief and trivial the message itself might be.

E-mail disclaimers are one of the minor nuisances of modern office life, along with fire drills, annual appraisals and colleagues who keep sneezing loudly. Just think of all the extra waste paper generated when messages containing such waffle are printed. They are assumed to be a wise precaution. But they are mostly, legally speaking, pointless. Lawyers and experts on internet policy say no court case has ever turned on the presence or absence of such an automatic e-mail footer in America, the most litigious of rich countries.

Many disclaimers are, in effect, seeking to impose a contractual obligation unilaterally, and thus are probably unenforceable. This is clear in Europe, where a directive from the European Commission tells the courts to strike out any unreasonable contractual obligation on a consumer if he has not freely negotiated it. And a footer stating that nothing in the e-mail should be used to break the law would be of no protection to a lawyer or financial adviser sending a message that did suggest something illegal.

So why are the disclaimers there? Company lawyers often insist on them because they see others using them. As with Latin vocabulary and judges' robes, once something has become a legal habit it has a tendency to stick. Might they at least remind people to behave sensibly? Michael Overly, a lawyer for Foley & Lardner in Los Angeles, thinks not: the proliferation of predictable yada-yada at the bottom of messages means that people have long since stopped paying any attention to it.

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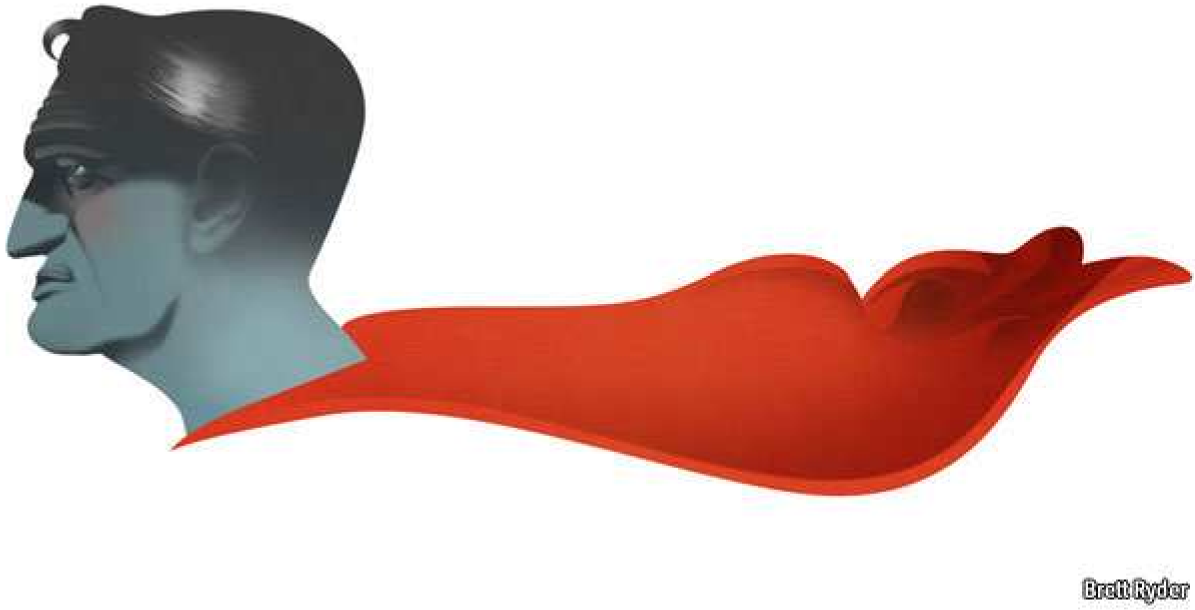
Schumpeter

Age shall not wither them

Companies should start seeing older workers as assets rather than liabilities



THE National Rural Electric Co-operative Association (NRECA) does not have the same ring to it as Google or Facebook. But in its own humble way the NRECA, based in Virginia, is helping to shape the future. It is a pioneer in coping with one of the biggest challenges facing business: managing older workers. It lets employees work flexible hours and telecommute up to three days a week. It gives them health checks and advice on managing stress, and regularly has ceremonies to congratulate long-serving staff. More than a third of its workers are over 50 and the average employee has been with the company almost 12 years.

Employers in the rich world have no choice but to learn how to deal with an ageing workforce, as the baby-boom generation gets older and life expectancies increase. Yet many are petrified of the changes. The Sloan Centre on Ageing and Work at Boston College found in a survey that 40% of employers worry that the ageing of the workforce will have a negative or very negative impact on their business. A survey last year by two British management institutes found that only 14% of managers think that their workplaces are prepared to cope with the greying of the workforce.

Peter Cappelli of the University of Pennsylvania's Wharton business school and Bill Novelli, a former boss of the AARP, America's indomitable grey-power lobby, delivered a powerful counterblast to such pessimism in a recent book, "Managing the Older Worker". Not only do older workers nowadays want to go on working. They bring all sorts of benefits. They possess decades' worth of formal and informal knowledge, which risks being lost as the baby-boomers retire, creating an epidemic of skills shortages in aerospace, energy and health care. More often than not they are the repositories of a company's core values.

But don't older people bring lots of problems, too? Literature is full of examples of difficult-to-manage older people, from Shakespeare's King Lear to Charles Dickens's Jeremiah Flintwinch. However, today's oldies are in far better shape than those of earlier generations. If Mick Jagger and Keith Richards can go on touring into their late 60s, their contemporaries can at least be trusted with a desk and a computer. People's muscles do weaken with age. But few jobs require brawn these days: in America 46% of jobs make almost no physical demands on workers, reckons the Urban Institute, a think-tank. Some older workers are reluctant to embrace new technology (though that surely does not apply to Bill Gates and Steve Jobs, both in their mid-50s). But they make up for this in different ways. Studies suggest that older workers are better at jobs that require personal skills, a growing proportion of the total.

Employers may be mistaken if they assume that older workers lack the animal spirits to make a go of new ventures. A recent study by the Kauffman Foundation, a research body, found that Americans aged 55-64 have launched more businesses than those aged 20-34 in every year since 1996. Conscientiousness also tends to rise with age: older workers have lower levels of absenteeism than younger colleagues.

None of this means that adjusting to an ageing workforce will be easy. Companies will need to rethink the traditional career ladder that linked seniority to pay and power. This is proving easier in America, where people change jobs more often. But it still has a long way to go elsewhere in the world, especially in Europe, where people tend to cling to their jobs, and in hierarchical East Asian societies. The biggest barrier to change is psychological: young high-flyers find it hard to manage older workers, and older curmudgeons resent being bossed about by whippersnappers. Almost 90% of employers worry about hiring older workers because of such conflicts. Companies need to think harder about training

high-flyers to manage their seniors. America's armed forces are ahead of the game here. The West Point military academy and the Marine Corps already have programmes to teach officer cadets how to work with older sergeants.

Sages and mentors

Companies also need to think harder about providing satisfying careers for older workers. Three techniques are already proving successful. The first is to treat them as mentors. Westpac, an Australian bank, has dubbed some older staff "sages" and asked them to codify the company's informal knowledge. The second is to recognise that they respond to different incentives: they may be less interested in money and promotion and more concerned with flexibility.

The third is to treat retirement as a process rather than a sudden event. Some employers offer older workers "bridge jobs" between full-time work and retirement. Mercy Health Systems gives them seasonal jobs that allow them to take long periods of leave without losing their benefits. They are also treating recently retired staff as a just-in-time workforce that can be used to cope with surges in demand or to fill in for absent colleagues. Northrop Grumman, a giant defence contractor, re-employs retired workers to teach new recruits about the company while Union Carbide, a chemicals company, asks retired executives to guide younger managers.

The nightmare that haunts many companies is that older workers spell rigidity. They will trap companies in the past and prevent them from riding the next wave of innovation. But this will be a problem only if companies let it be. Businesses cannot change long-term demographic trends. But they can change the way that they cope with those trends. If they refuse to rethink their hallowed practices, they might easily see the ageing workforce becoming a trap; but if they rethink those practices, as pioneers like the NRECA have done, they could turn older workers into the very model of a modern workforce.

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Media's ageing audiences

Peggy Sue got old

Viewers, listeners and readers are ageing fast. Oddly, media companies don't regard that as a catastrophe

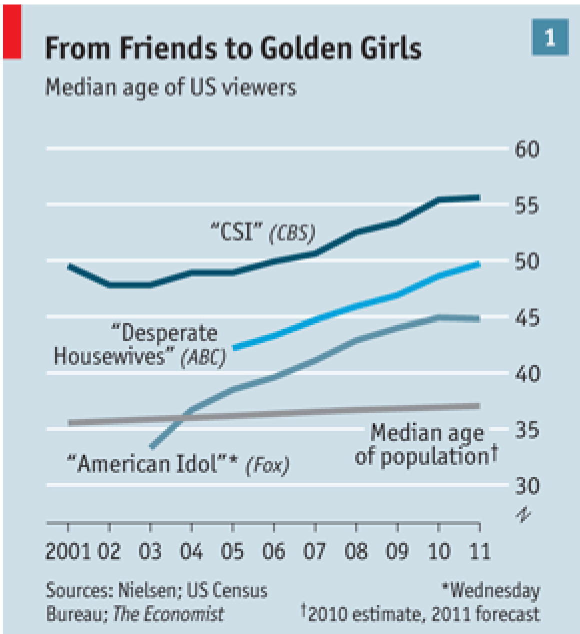
A FEW years ago Universal Music Group spied a gap in the market. How about a CD for people who grew up in the 1950s and wanted to revisit the pop music of their youth? The label pulled together songs by British and American artists, some well-known (Buddy Holly, Roy Orbison), others largely forgotten. "Dreamboats and Petticoats" was released in time for Christmas 2007.

That gap turned out to contain a seam of gold. "Dreamboats and Petticoats" has sold enough copies to be certified as double platinum. It has inspired a West End musical and three follow-up albums, with another due in November. In total the series has sold 2.3m copies, mostly in Britain-a country where fewer than 120m albums were shifted last year. And virtually everybody who bought the album forked over money for a compact disc. "They don't download, and they don't want to download," says Brian Berg of Universal.

"They" are consumers in late middle-age or beyond, who increasingly drive the music market. In Britain people aged 60 or over spent more on pop-music albums in 2009 than did teenagers or people in their 20s, according to the BPI, a trade group. Sony Music's biggest-selling album worldwide last year was "The Gift", by Susan Boyle, a 50-year-old Scot whose appeal derives in part from her lack of youth. And what has happened to music has also happened to other forms of entertainment.

The noisy disruption of media business models by the internet in the past decade has obscured a profound demographic transformation. Whether they are buying music, listening to the radio, reading newspapers or watching television, media consumers are ageing even more quickly than the overall population. Rather than trying to reverse this trend by attracting younger people, many companies are attempting to profit from the greying of media.

Grey anatomy



In America the audiences of all four big English-language broadcast networks are looking middle-aged. Since 2003 the median age of a prime-time CBS viewer has increased by three years, according to Nielsen, a research firm. Viewers of ABC and NBC are five years older; Fox's, seven and a half. In that time the median age in America has probably risen by a year and a bit. Some shows are greying faster than the networks that carry them, in part because they have fan bases that are ageing naturally. The audience that tunes in for the desperate housewives of Wisteria Lane is approaching 50 (see chart 1).

Indeed, every network except Fox had a median age of 50 or over last year. That is significant because advertisers tend to be most interested in how a show rates among people aged between 18 and 49. As Alan Wurtzel, head of research at NBC, puts it, a growing proportion of viewers are becoming almost invisible to marketers-"forgotten but not gone".

If broadcast television is growing old gracefully (helped by Botox injections), newspapers are racing towards senescence. Between 2002 and 2010 the proportion of American papers' regular readers who were aged 55 or more rose from 37% to 46% (see chart 2). Fully 43% of readers of Britain's *Daily Telegraph* and *Daily Express* are at least 65 years old, according to the National Readership Survey. Such papers are littered with advertisements for comfortable shoes, cruises and stairlifts.

The reason why newspaper readers are ageing so quickly is simple: the young are abandoning print faster than everyone else. They may pick up free papers to read on public transport, but when reception is good they tend to plump for mobile phones and the internet. The Pew Research Centre, an American think-tank, finds that 65% of 18- to 29-year-olds describe the internet as their primary or secondary source of news. Only 14% of people aged 65 or over say the same.

In music, too, the young have drifted to illegal file-sharing and, more recently, to free streaming services such as Spotify. By and large, the middle-aged and old have not. David Munns, who manages Bon Jovi, a rock band that was formed in the early 1980s and is still going strong, notes that older fans have more money and more scruples. They also regard illegal downloading as "too much work", he says. Bon Jovi's "Greatest Hits" was the 15th-biggest-selling album in the world last year.

As the young cut back on conventional media, their elders consume more of it. In Spain 54.2% of people aged 55 to 64 routinely listened to the radio last year-up from 46.6% in 2000. As a result, the Spanish radio audience has greyed even as overall listening has risen. Japanese baby-boomers carry on buying music at an age by which earlier generations had largely stopped. Singers who appeal to the middle-aged and old, such as Hideaki Tokunaga and Junko Akimoto, rule the charts.

The same is true of television. British 55- to 64-year-olds spent an average of five hours and ten minutes a day watching television last year-50 minutes more than in 2001. The middle-aged and old now have free digital channels dedicated to their tastes, such as ITV3, home of wrinkly detective dramas, and the highbrow BBC Four. They have seized on easy-to-use gadgets like digital video recorders, which increase their enjoyment of television.

The young are not watching less TV. But some of their viewing is now done through computer screens. And much of it is of unconventional channels. Instead of the evening news, American 20-somethings watch "The Colbert Report", a spoof news show. MTV has moved beyond music videos into reality shows, and is enjoying its best ratings in years. Media outfits that appeal to immigrants and their children often have youthful audiences. Univision, a Spanish-language broadcast network, boasts a median age of 37.

Now they're 64

Greying audiences are causing discomfort among media executives. But not as much discomfort as you might expect, given the industry's long preoccupation with youth. The ageing of the large baby-boom generation means there are a lot of potential customers in their 50s and 60s. Furthermore, the executives argue, people of this age are worth much more than in the past.

The practice of measuring television audiences by the number of 18- to 49-year-olds they contain is simply an historical anachronism, argues Mr Wurtzel of NBC. David Poltrack, his counterpart at CBS, agrees. It used to be assumed, he says, that older people had already worked out which brands they liked and could not be persuaded to try new things. But the middle-aged have taken to toys such as e-readers and iPads. Mr Poltrack has devised an alternative way of classifying

viewers that emphasises tastes and attitudes to media (for example as "sports enthusiasts" or "surfers and streamers") rather than age.

It is not surprising that ageing television networks should argue that the old are becoming more valuable. But the West's economic slump has given force to their claims by sapping the earning power of the young. In March the unemployment rate among Americans aged 20 to 24 was 15%. For 16- to 17-year-olds it was 29%.

Lack of work has combined with tighter lending standards to squeeze young people's buying power. Between 2007 and 2009 average spending on new cars and trucks by Americans under 25 fell by half, according to the Consumer Expenditure Survey. It fell by 31% among people aged between 25 and 34. By contrast, expenditure by those over 65 was flat, and the over-75s actually spent more, on average. The young also spent less on audio-visual equipment and services-that is, television sets and cable TV-while the old shelled out more. This helps to explain why advertising money has flooded back to the ageing broadcast networks since the recession. Advertisers are not so in thrall to the cult of youth that they are prepared to overlook such a shift.

Desperate, but not for younger viewers

Another reason why media companies are not too worried about the ageing of their audiences has to do with a change in business models. A firm that depends on advertising needs to attract valuable consumers. A firm that relies on subscriptions, by contrast, cares only whether its consumers pay their monthly bills. And perhaps the strongest trend in media in the past few years-stronger even than ageing-is the growing reliance on subscription as a means of paying for content.

BSkyB, Discovery Communications, ESPN, Netflix: many of the media industry's best-performing companies and hottest stocks of recent years rely on subscriptions. The recession may have slashed advertising and discretionary spending. But most people carried on paying the bills for entertainment. As a result, subscription-based businesses were able to sustain spending on content. So clear are the advantages of these businesses that even firms that have habitually relied on advertising are moving to copy them.

As newspaper advertising has declined, publishers have raised the prices of subscriptions and single copies. Last year 41.3% of the *New York Times*'s newspaper revenues came from subscriptions-up from 28.8% in 2007. Similarly, broadcast networks are battling for "retransmission fees" (essentially a cut of subscriptions) from cable and satellite distributors. As the broadcasters become less dependent on advertising, sheer numbers will come to matter more than demography.

The clearest sign of this shift is the appearance of online paywalls. Last month paywalls went up around the *New York Times* and the *Dallas Morning News*. The websites of Britain's *Times* and *News of the World* began to restrict access to subscribers last year. Hulu, an American website that carries broadcast TV programmes, and Spotify, a European music-streaming service, are both pushing subscriptions.

One good reason for media firms to erect paywalls is that new media are beginning to age, too. The proportion of people aged 65-plus who get most of their news from the internet may be only 14%-but in 2006 it was a mere 2%. Online video streaming began as a young person's hobby but has increasingly become mainstream. "Often it's the young who adopt a technology, but others follow them," explains Patricia McDonough, a television analyst at Nielsen.

With a few exceptions, media firms have found it hard to make money online. Consumers seem to tolerate fewer ads, and rates are low. When digital media were the province of youth, this did not matter much: media firms could argue that they were at least promoting their brands to young people, while deterring them from piracy. But let the middle-aged and the old, too, discover they can have entertainment for nothing? That would not do.

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Portugal seeks help

And then there were three

The first of two articles on Europe's debt crisis looks at Portugal's decision to ask for help. The second examines the price Greece is paying for going down the same path

WHEN Greece had to seek a rescue from the rest of the euro area and the IMF it was a shock. Ireland's fall from grace in late 2010 was less surprising. And there was nothing unexpected in the identity of the next country to seek refuge from the markets. For most of this year Portugal has been a dead man walking as far as investors have been concerned, its decision to seek official relief a matter of when rather than if. That question has now been answered: on April 6th the country applied to the European Union for help.

Jose Socrates (pictured), Portugal's outgoing prime minister, blamed his capitulation on the centre-right Social Democrats (PSD), the main opposition party. By refusing to support the minority Socialist government's fourth austerity package, he said, the PSD had precipitated a political crisis that forced him to resign on March 23rd, triggering an early election in June. Portugal and its banks had since seen their credit ratings downgraded to dangerous levels, Mr Socrates said. On the day Portugal turned to the EU, it had to pay a yield of 5.9% on one-year debt.

The outgoing government has not specified how much or what type of aid it has requested. Mr Socrates may aim for interim help that will see Portugal past two big financing hurdles on April 15th and in mid-June, and leave it to the incoming government to negotiate a bigger package.

Portugal's fiscal sins were not as serious as those of Greece and its public finances have not been wrecked by its banks as was the case with Ireland. Nonetheless they have long been wobbly. It was the first member of the euro area to break the rules of the stability and growth pact (in 2001); and debt is uncomfortably high, at over 90% of GDP, and rising. More important, it is stuck in an economic slow lane that makes it hard to repair its finances.

Portugal has not been helped by its indecisive and bickering politicians. Mr Socrates made the fatal mistake of delaying a big fiscal consolidation. One of the final blows to Portugal's chances of staying out of the bail-out zone came when it emerged-in an echo of Greece's misreported finances-that last year's deficit was 8.6% of GDP rather than the planned 7.3%.

If Portugal's request was predictable, the outcome of this latest stage in the euro area's sovereign-debt crisis is less easy to gauge. The hope is that Portugal will be the last euro-area country to fall prey to markets. If the rot stops there, the damage will be containable. All three countries are small; Greece, the biggest, makes up only around 2.5% of euro-area GDP.

The fear, however, is that markets will now turn their attention to a much bigger target-Spain. If it were to fall, the debt crisis would become far graver. Spain shares several of the weaknesses of the three fallen economies. Like all of them it lost competitiveness in the good times, and like Portugal and Greece it ran persistent and large current-account deficits. Like Ireland it had a runaway real-estate boom that has left its banking system with a pile of sour property loans. The Spanish government's moves to force its savings banks, or *cajas*, to raise more capital have helped, but investors believe the banks will need more than the euro15.2 billion ($21.7 billion) that the Bank of Spain thinks is required. Restructuring of the *cajas* is prone to hiccups, as the recent break-up of Banco Base, a planned merger of four savings banks, shows. Spain's banks are exposed to Portugal; the Spanish economy is vulnerable to rising interest rates because most household mortgages are variable-rate. Profligacy among regional governments is another concern.

Yet Spain is also different. Although its size is what makes some investors tremble, its bigger and more liquid public-debt markets also offer protection. After initial hesitation the government of Jose Luis Rodriguez Zapatero has taken some tough measures; the state expects debt to stabilise at 70% of GDP, up from 60% in 2010 but well below the euro-area average. Having said he will not stand in next year's election, Mr Zapatero can take more bullets.

So far this year Spanish bond yields have decoupled from Portugal's and narrowed with German Bunds. Although they may gyrate following Portugal's demise, Spain should avoid its neighbour's fate. But it could yet be a close-run thing.

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Greece's economic woes

The labours of austerity

The international plan to rescue Greece is instead starting to paralyse it

WHEN the ancient Greeks invented the word "crisis" they had in mind a short period of acute stress. The modern Greeks have been experiencing crisis for over a year and no end is in sight. As Portugal this week joined Ireland and Greece in requesting international rescue funds, it would have drawn little comfort from the example in the eastern Mediterranean. The mood in Greece is one of deepening pessimism. A plan drawn up last May to sort out the country's public finances risks trapping the economy instead.

At Syntagma, the Athenian square opposite the parliament, taxi-drivers picking up fares report falls of 40% or more in custom. Bar-owners in nearby streets hassle tourists to fill seats in near-empty restaurants. In smart Kolonaki, streets are scarred by the boarded-up premises of failed shops. Tourists snap away at the Parthenon on the Acropolis but the city's prime attraction is hardly teeming. Nine hotels in the centre have closed in recent months.

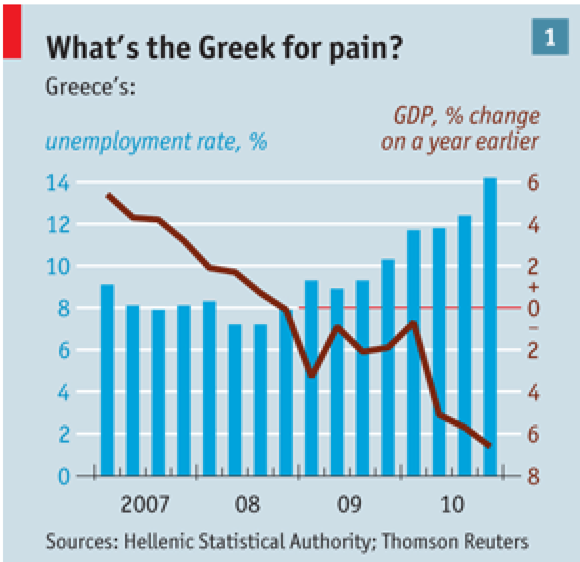
The rescue plan was never going to be easy to achieve. In order to get euro110 billion ($155 billion) in funding from other euro-area countries and the IMF over three years, the Socialist government led by George Papandreou committed itself to a drastic austerity programme. The project envisaged a two-year stint in the economic workhouse as GDP fell and Greece regained lost competitiveness. At the same time Mr Papandreou promised to carry out a comprehensive repair of the economy's deep-seated structural flaws.

Some important reforms have certainly been made, in the teeth of protests and demonstrations. Unaffordable promises on pensions, an already high 11.6% of GDP last year, have been slashed: instead of doubling to 24% in 2050, the burden will rise by 2.5 percentage points. The labour market has become slightly more flexible through changes in arbitration arrangements and opt-outs for individual firms from collective-bargaining agreements. The government has also sought to tackle entrenched monopolies such as the trucking industry.

Whether these reforms really measure up to the gravity of Greece's plight is disputed. Yannis Stournaras, director-general of IOBE, an economic think-tank in Athens, calls the shake-up of the monopolies a qualified success. Stefanos Manos, a finance minister in the early 1990s, thinks that too little has been accomplished. The trucking reform is being phased in over two-and-a-half years. Pharmacists have retained their monopoly and continue to enjoy fat profit margins. Law firms still cannot open branches in different cities.

But the real source of gloom is the shorter-term impact of austerity. A year ago the plan forecast that GDP would shrink by 4% in 2010 and 2.5% in 2011. Instead it fell by 4.5% last year and IOBE predicts it will decline by 3.2% in 2011. The unemployment rate has risen from 9% in mid-2009 to 14.2% in the last quarter of 2010, and is expected to average 15.5% this year (see chart 1).

Misery was inevitable, given sharp spending cuts and big tax rises. Last year's retrenchment was on an unprecedented scale in recent European history, insists George Papaconstantinou, the finance minister, involving cuts of 15-20% in public-sector workers' pay, reductions of more than 10% in pensions and painful increases in VAT and other taxes. There is more pain to come: a three-year public-sector pay freeze and the government payroll falling from 800,000 in 2009 to 650,000 by 2013.



Even so, the fiscal figures have come in worse than planned. For one thing, the starting point was even grimmer than realised last May. Late last year the budget deficit for 2009 was revised from 13.6% of GDP to 15.4% and public debt went from 115% of GDP to 127% as a string of loss-making public enterprises were put on the government's books. For another, progress in cutting the deficit in 2010 was slower than envisaged. Provisional estimates put it at an oppressively high 10.6% of GDP rather than the original target of 8.1%. Debt is now close to 145% of GDP (see chart 2).

Measures to tackle tax evasion, for which Greece is notorious, have obvious potential to lift revenue. Mr Papaconstantinou reels off a host of initiatives, including centralisation of tax collection, which are designed to do just that. They may eventually bear fruit but as Michael Massourakis, chief economist at Alpha Bank, points out, there are no swift gains to be made because the problem is so deeply entrenched.

The fiscal setbacks have made the markets even more wary of Greek debt. Ten-year government-bond yields have climbed to almost 13%. The credit-rating agencies have recently downgraded Greek sovereign debt still further, from junk to junkier. This does not affect the government for the time being, because it can cover its financing needs this year from

the rescue funds. But under last May's plan Greece was scheduled to raise about half of what it will require in 2012 from the markets. Since that looks infeasible, it will need even more official help than the euro110 billion already pledged.

Greece's banks-in contrast to Ireland's-were not a cause of the country's difficulties. But they are being poisoned by the toxic public finances, not least because sovereign-debt downgrades hurt their own credit ratings. Cut off from sources of wholesale funding, they have become ever more reliant on liquidity support from the European Central Bank, now equivalent to almost a fifth of their total liabilities. Depositors are skittish and banks are having to offer them higher rates.

Higher funding costs have pushed up lending rates, but the main way that the banks' difficulties are affecting the economy is through credit rationing. Demand would be anaemic anyway but credit growth to the private sector, which ran at over 21% a year in 2006 and 2007 and a still perky 16% in 2008, has collapsed. Lending fell by 0.2% in the 12 months to January. As banks shrink their balance-sheets the squeeze on business intensifies, which in turn hurts the banks through higher loan losses. Non-performing loans have grown to 10% of the total.

In a sign of the pressures on business, more companies quoted on the Athens stock exchange made losses last year than reported a profit. The economy is stuck in a vicious circle. If it stays weak, that will undermine the government's ability to achieve additional fiscal retrenchment; that in turn will cause further loss of confidence on the part of the markets, which will continue to lock the banks out of funding sources. Is there a way out of the trap?

The government argues that the exit is in sight and will come, in essence, by sticking to the plan. Just as the darkest hour comes before dawn, so with the Greek economy. Mr Papaconstantinou points to some encouraging signs: a rapid growth in goods exports in recent months, a significant fall in labour costs and indications that tourism will pick up later this year.

But even if Greece is starting to become more competitive, it still has a long way to go. The IMF estimated in March that the country's costs are 20-30% too high. Bringing them down will take time, and Greece does not have much of that. Dimitri Papalexopoulos, who runs Titan, a cement company, fears that the economy will continue to flag as private investment is stunted by lack of credit and confidence.

Many have argued that restructuring is the only answer. Winning a reprieve from the markets would certainly require something much bolder than a slightly stricter version of the same plan. One option would be to turn the commitment to raise funds through privatisation into a broader opening of the Greek economy. At a summit in March the government promised to raise as much as euro50 billion (22% of GDP) by selling assets in return for better terms on its European loans.

There was immediate doubt about the seriousness of its intent, given dissent within government and from trade unions. Facing down such opposition would make full-throttle privatisation even more potent as a way of bolstering confidence.

The bulk of the proceeds would also have to come from land sales, which could call forth another important and long-overdue reform: a land registry. The state owns more property than the private sector but no one can be sure about its precise holdings-and those of private owners-because of the lack of a proper registry except on some islands such as Rhodes (formerly occupied by Italy). Establishing a proper register, says Mr Papalexopoulos, would be "the single most effective way to kick-start growth throughout Greece".

All this requires firm leadership, however, and Mr Papandreou is, in the eyes of many, failing to provide it. "The oarsmen are rowing back and forward at the same time," says a business boss. The optimists' view of Greece is as a giant, sun-kissed development opportunity, Florida minus the swamps. Without decisive political action the harsher judgment of the markets will be the one that prevails.

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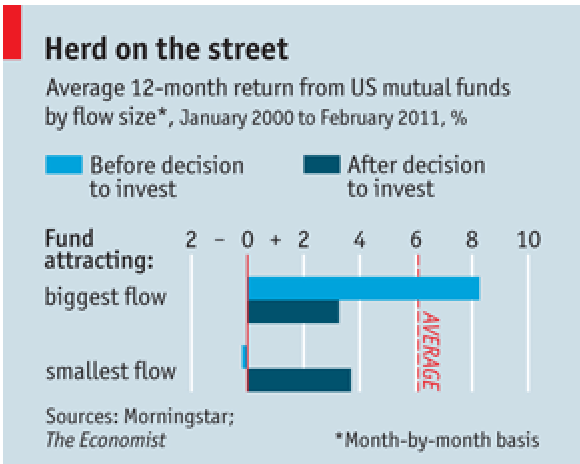
Buttonwood

The foolishness of crowds

Investors tend to chase the latest fad

IF YOU see a crowd outside a department store it is reasonable to assume that there is a sale. If you see a queue outside a bank there is a good chance that nervous depositors are trying to withdraw funds. In both cases the actions of other people send a signal that may be useful for others to follow.



But does the wisdom of crowds apply to investment? At the peaks it certainly pays to head in the opposite direction from the masses. Bubbles occur when the population develops an enthusiasm for a particular asset class, whether it be technology stocks in the late 1990s or houses in the mid-2000s. The story goes that in 1929 Joseph Kennedy liquidated his portfolio when he heard that a shoeshine boy (in some versions, an elevator boy) was giving stock tips.

Bubbles are relatively rare, however. In the normal course of events, following the crowd may be more profitable. After all, bond-market vigilantes are supposed to keep a wary eye out for inflation, while the stockmarket ought to give an early indication of coming recessions.

To investigate the investment success of crowds, *The Economist* asked Morningstar, an investment-research firm, to send us fund-flow data and performance statistics for its American mutual-fund range. We then applied some simple tests. Did investors plonk their money into an asset class that had been performing strongly over the previous 12 months? And was their judgment borne out over the subsequent 12 months?

The chart shows that the crowd was more foolish than wise. The most popular sector, measured by the net inflow of money, had generally performed well in the previous year, beating the average sector by more than two percentage points. Investors were clearly chasing the trend. Alas, over the next 12 months that most popular sector lagged behind the average by just under three percentage points. On around 60% of occasions, the return of the most popular sector was much lower after investors bought it than before.

The mob's behaviour might still be useful if it acted as a contrarian indicator. Here there is good news and bad news. So-called "pariah funds" did beat the most popular sectors, but they also failed to beat the average.

There is another test of how psychic investors have been, which is to see how good they were at picking the best-performing sectors and avoiding the worst ones over any given 12-month period. Because the star performers tend to be fairly specialised, covering areas like China, property or Latin America, they are never likely to receive the biggest fund flows. Most American investors opt for broad equity or government-bond portfolios. Again, investors were more Nostradumbus than Nostradamus. The average fund flow into what turned out to be the worst-performing sector over the subsequent 12-month period was $166m; the average flow into the best was only $72m.

Perhaps investors get led astray by the advice they receive. The earnings forecasts compiled by investment-bank analysts and stockbrokers are often used as a basis for valuing shares and for predicting long-term earnings. But in the past quarter of a century the consensus forecast for the long-term annual earnings growth of American companies has never dipped significantly below 10%.

Such a rate was not achieved, of course. It was far faster than the annual growth rate of the American economy, which made the forecasts implausible to begin with. The long-term growth rate of earnings per share on the stockmarket has lagged behind that of American GDP because many of the fastest-growing companies are not quoted. Worse, earnings forecasts peaked in 2000 just as the stockmarket was about to fall. The experts were no wiser than those they advised.

The wisdom of crowds only really applies when forecasts are genuinely independent, as when farmers are guessing the weight of a bull at a country fair. Once you know what others are thinking, their views lead you into error.

Perhaps people are congenitally programmed to follow the herd. Warren Buffett retells the story of the dead oil prospector who gets stopped at the pearly gates and is told by St Peter that Heaven's allocation of miners is full up. The speculator leans through the gates and yells "Hey, boys! Oil discovered in Hell." A stampede of men with picks and shovels duly streams out of Heaven and an impressed St Peter waves the speculator through. "No thanks," says the sage. "I'm going to check out that Hell rumour. Maybe there is some truth in it after all."

Economist.com/blogs/buttonwood

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The Federal Reserve

Off message

Ignore the hawkish rhetoric. The Fed isn't about to tighten

WHEN the Federal Reserve put its monetary foot to the floor two years ago, it had plenty of company. These days America increasingly looks like the outlier. Emerging markets have been tightening for months-China's central bank raised interest rates again on April 5th. As *The Economist* went to press, the European Central Bank (ECB) looked likely to raise rates for the first time since 2008. The Bank of England has been agonising over whether to do so too. The Bank of Japan has turned the monetary taps on, but its circumstances are somewhat special.

There are signs of unease inside the Fed, which has committed itself to hold interest rates near zero "for an extended period", while buying $600 billion of government bonds with newly printed money. On March 31st Narayana Kocherlakota, president of the Federal Reserve Bank of Minneapolis, told the *Wall Street Journal* that rates would probably have to start rising by the end of the year. The next day, his counterparts at the Richmond, Philadelphia and Dallas banks made similarly hawkish remarks.

Given the chance, some officials would pull the plug on the Fed's second round of quantitative easing right now. That isn't going to happen. Minutes of the Fed's last policy meeting, released on April 5th, make it clear that the plan will be completed as scheduled in June. The real battle is over what happens after June. The hawks would like to see the Fed move relatively quickly to tighten monetary policy. Futures markets see one, 25-basis-point rate increase as likely by year-end.

Markets habitually assign too much weight to the hawks, however. The real power at the Fed rests with its leaders: Ben Bernanke, the chairman; Janet Yellen, the vice-chairman; and Bill Dudley, the New York Fed president. Their views are more discreet but they are the ones that carry the day. At present they are sanguine about inflation and worried about unemployment, which means a rate rise this year is unlikely.

If the economy continues to improve, the Fed would probably lay the groundwork for higher rates in 2012 by dropping its "extended period" commitment later this year. It could also tighten by shrinking its balance-sheet, first by no longer reinvesting the proceeds of maturing bonds, then by draining reserves through money-market operations and finally through outright sales of bonds. But the unpredictable effects of such operations mean they will not be the principal method by which the Fed tightens monetary policy.

Mr Bernanke and his lieutenants are conventionally Keynesian. They consider inflation's principal determinants to be the gap between aggregate supply and demand and the public's expectations. Wages, a good gauge of labour demand, are growing sluggishly. Galloping petrol and grocery costs have driven up inflation, so they look to core inflation as a proxy of where things end up once commodity prices stop rising. This measure is still below 2%, the Fed's preferred inflation rate, and thus too low. Expected inflation looks tame, too (see chart).

The hawks, by contrast, see the world quite differently. They assign less importance to the gap between aggregate demand and supply in determining inflation, and more importance to the stance of monetary policy. They worry that low interest rates and the Fed's large balance-sheet could nurture inflation expectations even when unemployment is high. They are also more likely to see inflationary implications from rising commodity prices. In other words, America's hawks would feel right at home inside the ECB.

The difference, of course, is that the hawks are not in charge at the Fed. Their rhetorical influence may also wane. From April 27th the Fed will copy the practice of other central banks and hold press conferences. They will take place after four of its eight annual meetings. The main reason is to explain its decisions better and restore some legitimacy with a public still seething after crisis-era bail-outs. But the press conferences will also enable Mr Bernanke to control the Fed's message before a colleague with more quixotic views excites the markets.

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European banks

Topping up

A mini-stampede among European banks to raise capital

Mine's a pint of tangible equity

LIKE drinkers in an English pub who crowd the bar well before the bell is rung for last orders, Europe's banks are jostling to get to the front of the queue to raise extra capital. Italy's UBI Banca tapped markets for euro1 billion ($1.4 billion) at the end of March. This week Intesa Sanpaolo, the country's second-largest bank, said it would raise euro5 billion. Germany's Commerzbank has also joined the rush, announcing plans on April 6th to gather euro8.3 billion by selling shares.

Other Italian banks will be under pressure to follow. First among them may be Monte dei Paschi di Siena, which is expected to raise about euro2 billion. UniCredit, Italy's biggest bank, hopes to sit this round out. It is pointing investors to its core Tier-1 ratio of 8.6%, a healthy enough figure but one that may begin to look anaemic as the average held by other Italian banks ratchets up. The last time UniCredit needed capital the Libyan sovereign-wealth fund was happy to oblige. Its stake of 7.6% is now frozen.

The ostensible reason for the rush is that the Italians want to meet the new capital requirements of Basel 3 immediately, instead of waiting until 2019 when all the rules will finally be in force. Europe's latest round of stress tests provides another incentive to boost buffers. So does the sovereign-debt crisis: banks are paying over the odds to borrow in wholesale markets because of worries about the effect of debt restructuring and Italy's own creditworthiness. Since write-downs are absorbing about half of Italian banks' operating profits, they have less chance of building up capital via retained profits.

Commerzbank has a different goal: to pay off the German government's hybrid capital (although the government will provide some of the funds itself by subscribing to the rights issue). But the bank's core Tier-1 capital ratio will fall to 8.8% as a result of the repayment. Investors will hope that Commerzbank does not end up wanting another round later.

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American stockmarkets

Reversal of fortune

Beware of Chinese bus-advertising firms backing into shell companies

NUMEROUS threats to the integrity of American public stockmarkets have emerged over the past year, including last May's "flash crash" and-if you believe its critics-NASDAQ's proposal to merge with the New York Stock Exchange. Now another menace is flashing on regulators' radar screens: the "reverse merger", in which a private company goes public by combining with a listed shell company rather than via an initial public offering (IPO).

The practice, also known as "back-door registration", is not new. It has long been used by small firms looking for a cheaper, easier route to public ownership. There are no underwriting fees, for instance. Unfortunately, it also risks allowing dodgy outfits to access public markets, and thus lure investors, because it enables them to avoid some of the disclosure-and the vetting by regulators, investors and underwriters-to which firms doing IPOs are subject.

The Chinese firms that account for a quarter of the more than 600 back-door registrations since January 2007 are a particular worry. This week Luis Aguilar, one of the five members of the Securities and Exchange Commission (SEC), suggested that a growing number of these have "significant accounting deficiencies" or are "vessels of outright fraud".

At least one back-door registrant has admitted to inventing manufacturing contracts. Another stands accused of staging fake production of biodiesel when investors visited its plant. Several have had to restate earnings.

The focus of most attention, however, is China MediaExpress (CME), an advertising company that reverse-merged its way onto NASDAQ in 2009. Its auditor, Deloitte, resigned last month, citing lost confidence in the firm's financial reporting. This forced CME to reveal that Deloitte had had concerns on many fronts: the authenticity of bank statements, the validity of advertising agents and customers, undisclosed loans and double-counting of the buses on which the firm was supposed to run ads. One of CME's big shareholders is Starr International, run by AIG's former boss, Hank Greenberg. It has sued CME and Deloitte to recover its $13.5m investment.

Eager to stamp out any shenanigans, the SEC has set up a group to investigate fraud in foreign companies with American listings. But scarred investors should not hold their breath. The firms they backed may be registered in America but many of the documents relating to alleged misconduct, and the people behind them, are beyond the reach of authorities.

Some of their beancounters are out of reach, too. A recent report by America's Public Company Accounting Oversight Board (PCAOB) found that some American audit firms had signed off on the accounts of reverse-merged firms even though their opinion was based largely on work done by unrelated Chinese auditors, in breach of PCAOB guidelines. American regulators are blocked from inspecting audit firms in China. James Doty, the PCAOB's chairman, has called this "a gaping hole in investor protection".

Legitimate operators-yes, they exist-complain that all Chinese "small-cap" shares are being tarred with the same brush. Some are contemplating going private. As they weigh their options, pressure will grow on regulators to scrap the reverse-merger structure. Exchanges that list reverse mergers, such as NASDAQ and NYSE Amex, have delisted or halted trading

in at least a dozen stocks (some of which still trade in over-the-counter markets). NASDAQ has tightened listing procedures and started using investigative firms to scout applicants' domestic operations. By one estimate the combined market value of reverse-merged firms peaked at $50 billion. It is unlikely to be surpassed.

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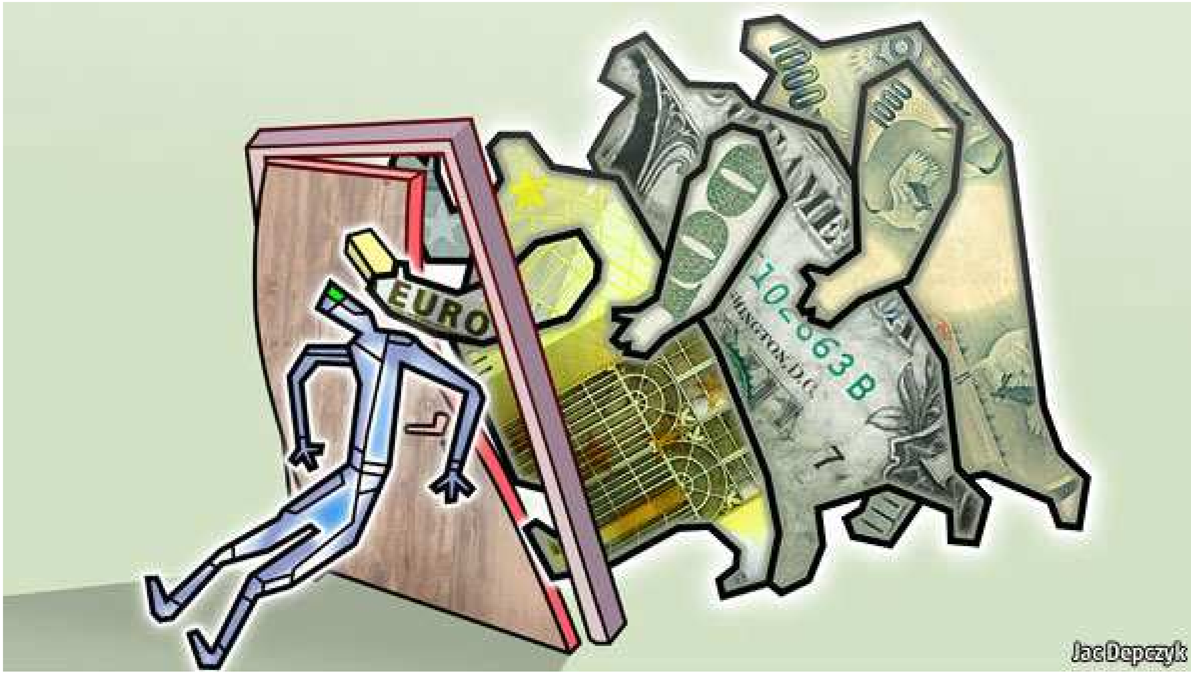
Economics focus

The Reformation

A disjointed attempt by the IMF to refine its thinking on capital controls



FOREIGN capital fled the emerging world in the throes of the economic crisis. Now, lured by their better growth prospects and repelled by rich countries' low interest rates, money has gushed back into countries like Brazil, Peru, South Africa and Turkey. Paulo Nogueira Batista, Brazil's executive director at the fund, calls it an "international monetary tsunami".

Usually emerging markets welcome foreign capital, which can help finance much-needed investment. But the recent surge has them worried, partly because of its speed and fears of an equally rapid reversal. The IMF reckons that gross inflows have risen to 6% of emerging-world GDP in about a quarter of the time taken for a similar spike before the crisis. Policymakers also fear that this flood of capital could lead to asset-price bubbles and overvalued currencies. Many have implemented measures to stem the tide, from Brazil's tax on portfolio inflows to Peru's higher charge on non-residents' purchases of central-bank paper.

Such policies-particularly capital controls that apply specifically to foreign investors or treat them differently from nationals-have long been controversial. Countries that use them are often accused of doing so to keep their currencies artificially undervalued. Critics reckon that with their prospects improving emerging markets should just let their currencies rise. But emerging economies retort that the reason capital is flooding their way may have less to do with their long-term prospects than with temporary factors such as unusually loose rich-world monetary policy, over which they have no control. Adding to the confusion is the absence of any internationally accepted guidelines about what is acceptable when it comes to managing capital flows.

The IMF is the natural arbiter of such issues. It has already stepped back a little from its historical antipathy to capital controls. In February 2010 a research paper by a team of economists at the fund led by Jonathan Ostry cautiously endorsed the use of controls in situations where a country facing a capital surge had a currency that was appropriately valued, had

already built up enough reserves and had no further room to tighten fiscal policy. The fund now reckons these conditions are not all that rare. It finds that 9 out of 39 emerging markets studied would have been justified, as of late 2010, in resorting to such controls because they had exhausted other options. There is a need, therefore, for more clarity on which measures are justified, and when.

On April 5th the IMF released two documents designed to achieve just that. The first, a "framework" for policy advice that is approved by the fund's board, lays out the institution's official thinking. The other, by Mr Ostry and his colleagues, provides the analytical backing for the framework paper and explains the conditions under which various kinds of policy instruments might help manage capital flows. The two papers aim to ensure that the advice the IMF gives member countries is consistent. But several curious differences between them suggest that the fund's own thinking on managing capital flows is far from settled. In at least two respects the new paper by Mr Ostry's team marks a further evolution of the fund's position on capital controls. But the board-endorsed policy framework seems less inclined to budge.

Earlier IMF papers emphasised that capital controls should be imposed only in the face of temporary surges in inflows, arguing that the exchange rate should adjust when it came to permanent shocks. But Mr Ostry's team now points out that persistent inflows might be even more dangerous in terms of asset-price bubbles. It concedes that controls may be useful to target inflows that are expected to endure, because of the threat to financial stability. The framework paper is much more conservative, arguing that capital-flow measures "are most appropriate to handle inflows driven by temporary or cyclical factors".

The IMF has historically been more favourably disposed towards "prudential" measures, which are designed to stop inflows from destabilising financial systems and do not explicitly discriminate between residents and foreigners, than towards capital controls, which erect barriers designed to stop the exchange rate from rising. Mr Ostry and his colleagues point out that some prudential measures distinguish between local-currency and foreign-currency transactions. This makes them more like capital controls since most foreign-currency liabilities are likely to be owed to foreigners. It may thus make sense to treat such prudential measures and capital controls similarly. The framework paper, however, maintains that countries should "give precedence to capital-flow measures that do not discriminate on the basis of residency (such as currency-based prudential measures)" over those that do. The disconnect is glaring and confusing.

It wasn't us

The fund's attempts to flesh out what countries threatened by a surge of capital should do come up against a more fundamental problem, too. Many emerging economies argue that the IMF is focusing on the wrong players. Mr Nogueira Batista told a Brazilian newspaper that he objected to "countries that adopt ultra-expansive monetary policy to get over the crisis [and] provoke an expansion of liquidity on a global scale", and which then insist on guidelines about how recipients should behave. (Indeed, emerging economies were firmly opposed to the fund's original plan to refer to what is now a "framework" for policy advice as the more prescriptive-sounding "guidelines".) The fund acknowledges that these "push factors" are important, and should be addressed. Its own analysis suggests that American interest rates have a larger effect on flows to emerging economies than those economies' own growth performance.

A fund insider says that negotiations around the new framework on capital-flow measures were "the most contentious that any staffer can remember". It shows.

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Astrophysics and alien intelligence

Talking to the neighbours

A modest proposal for an interstellar communications network

ALMOST as soon as radios were invented, people speculated about using them to listen to-and maybe even talk to-extraterrestrial civilisations. Since the 1960s attempts have been made to do so by sifting through signals from outer space in search of alien chit-chat. More recently, the use of lasers in telecommunications has suggested to some that they might be a better way to communicate across vast distances, so searching for telltale flashes from the sky is now in vogue.

But techniques that work well on Earth are not necessarily ideal for talking across the vast chasms that separate stars. And for several years John Learned of the University of Hawaii and Anthony Zee of the University of California, Santa Barbara, have been promulgating what they believe is a better idea. They suggest that any alien civilisation worth its salt would alight not on the photons of the electromagnetic spectrum-whether optical or radio-frequency-to send messages to other solar systems. Rather, it would focus its attention on a different fundamental particle, one that is rather neglected by human technologists. That particle is the neutrino.

Neutrinos, it must be confessed, are neglected for a reason. Though abundant (the universe probably contains more of them than any other sort of particle except photons), they are fiendishly difficult to detect. That is because they interact only occasionally with other forms of matter. But that is precisely why Dr Learned and Dr Zee like the look of them. Light and radio waves are absorbed and scattered by interstellar gas and dust. Neutrinos would pass straight through such obstacles, and could easily be detected by neutrino telescopes on Earth (which typically consist of giant vats of water or, more recently, huge chunks of Antarctic ice).

The two researchers go further. They argue that powerful beams of neutrinos could be used to turn entire stars into flashing beacons, broadcasting information across the galaxy. Outlandish as this sounds, it is an idea that can easily be checked, for astronomers are already sitting on the data that might contain these extraterrestrial messages. They just need to analyse those data from a new perspective. Dr Learned and Dr Zee are therefore trying to persuade someone who studies the data in question to take their idea seriously and spend a little time having a look.

Motes and beams

To detect artificial neutrinos using existing telescopes means screening out the natural neutrino background. Fortunately, much of that is produced by nuclear reactions in stars, and such stellar neutrinos have relatively low energies. If the aliens made their beams out of neutrinos that were a billion times more energetic than the ones emanating from stars (something the researchers argue is not completely beyond the bounds of current technological imagination), the background noise would disappear. At high enough energies the rest of the galaxy is so quiet that if someone detected even a couple of energetic neutrinos arriving from the same direction, it would almost certainly mean they were artificial.

Moreover, Dr Learned proposes a specific energy that aliens might favour. The magic number is 6.3 quadrillion electron-volts. (An electron-volt is the energy with which a one-volt battery can accelerate an electron.) A neutrino with this energy has a good chance of producing a particle known as a W^- when it passes through a detector. The W^- particle will then decay in a characteristic way, leaving an unambiguous record of the neutrino's passage.

This is not the first time that beams of neutrinos have been proposed as a means of interstellar communication. But past suggestions required enormous energies (of the order of the entire output of the sun) to create a sufficiently intense beam. Dr Learned and Dr Zee have come up with a design for a particle accelerator that would do the job a good deal more modestly, using another type of subatomic particle, the pion, as an intermediary. According to their estimates, this should require no more energy than a typical Earth-bound power station can provide. Aliens might therefore be willing to give it a go-as, indeed, might humanity, if that were thought wise.

Once a civilisation has mastered the trick of generating high-energy neutrinos, though, Dr Learned's imagination suggests it might signal its existence to the waiting universe another way-and this is where the existing astronomical archives come in. For 100 years astronomers have paid particular attention to a class of variable star known as the Cepheids. These are important because they produce regular pulses of light and the period of those pulses is precisely related to the luminosity of the star. A Cepheid's distance can thus be calculated with great accuracy. And, since individual Cepheids are bright enough to be seen in other galaxies, they were the first tool used to estimate the distances to such galaxies.

Dr Learned, however, reckons the pulse-period of a Cepheid could be modulated by a suitable beam of neutrinos. Such a beam would easily penetrate the star's outer layer, but the stellar core would be sufficiently dense to absorb part of it. That would be enough to heat the core slightly and this heating would, in turn, accelerate the Cepheid's pulse rate. Time the beam right and the star could be turned, in effect, into an FM transmitter-broadcasting to the universe on the underlying carrier-wave of the Cepheid's pulsation.

Tickling a star

Admittedly, the energy needed to produce a Cepheid-modulating neutrino beam really would be a sizeable fraction of the output of the sun. But putting aside such minor engineering challenges, the point Dr Learned is keen to make is that because Cepheids have been so thoroughly examined, looking for transmissions from the Betelgeuse Broadcasting Corporation might just be a matter of re-examining the archives. If an intergalactic version of "Yesterday in Parliament" showed up in such a trawl it might not demonstrate the existence of truly intelligent aliens. By contrast, coverage of the cricket on "Test Match Special" would surely be proof positive.

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Medical devices

Inhaling information

How to collect data on asthma while, at the same time, treating it

Big Doctor is watching you

IN 1985 and 1986 an epidemic of asthma hit Barcelona. The city's researchers first turned to the usual suspects, such as air pollution, pollen and mould. But a series of telephone interviews with the sufferers pointed to a much more precise cause. All the attacks had occurred by the harbour, and at times when ships were unloading soya beans. The cause was clear: soya-bean dust. So was the solution: the installation of filters on the harbour's silos.

Asthma is one of the world's most common chronic diseases. It affects about 300m people (almost 5% of the population). Yet what triggers any given asthma attack is often unclear and, as a consequence, most asthmatics are not properly treated. Stories of success, like that of Barcelona, are rare.

Part of the reason for that lack of clarity is inadequate data on where and when attacks happen. But David Van Sickle, an epidemiologist and medical anthropologist who once worked for America's Centres for Disease Control and Prevention (CDC), has come up with a solution. This is to use the asthma inhalers carried around routinely by patients to record the time and location of symptoms as they happen.

To develop his idea, Dr Van Sickle left CDC and founded a company, Asthmapolis, which is based in Madison, Wisconsin. The result is Spiroscout, an inhaler with a built-in Global Positioning System locator and (in advanced models) a wireless link to the internet. Whenever someone uses the inhaler, it broadcasts the location and time to a central computer. Asthmapolis plots and analyses the data, and sends weekly reports to participating patients and their doctors summarising the observations and making recommendations.

That is useful for the individuals involved, since it may illuminate patterns of which they were unaware (the proximity of a particular kind of crop, for example). It could also help doctors identify those patients whose asthma is not under proper control. Use of the inhaler more than a couple of times a month suggests there is something wrong, and that the patient's medication may need to be changed. Patients do not, however, always report such problems, and so do not get the right drugs. The big public gain, though, will come from pooling all the data from the inhalers, once they have been suitably anonymised. That will open the way for a much more detailed analysis of what is going on, and may allow the triggers to be identified and ranked in order of importance.

Over the past three years Dr Van Sickle has run two pilot studies to test the new tool. Both of these showed useful improvements in patients' management and understanding of their disease. They have also resulted in him questioning some longstanding theories about asthma, including the ideas that symptoms occur primarily at home and that the affliction is more prevalent in urban areas than rural ones. If those insights are confirmed, they will change the way asthma is managed.

The next step, commercialisation, is planned for the autumn. With nearly 500,000 asthma-related hospital admissions every year in America alone (often involving cases where the disease could have been properly controlled by drugs, but was not), the market could be large. Alternatively, Dr Van Sickle's old friends at the CDC or some other medical-research agency might think the data sufficiently valuable to buy and distribute the things themselves. Either way, the upshot

would be better lives for patients in the short term and, if all went well, a true understanding of the triggers of this debilitating and occasionally life-threatening condition.

Stress and ageing

A question of attitude

The link between chronic stress and a marker of old age is being disentangled

Bad for your telomeres

TELOMERES are to chromosomes what plastic caps are to shoelaces-they stop them fraying at the ends. Unlike shoelaces, though, chromosomes replicate themselves from time to time as the cells they are in divide. This shortens the telomere and, after 50-70 such divisions (a number known as the Hayflick limit, after its discoverer), a chromosome can grow no shorter and the cell it is in can divide no more.

That provides a backstop against cancer. The rapidly dividing cells in a tumour soon hit the Hayflick limit and the process is brought to a screeching halt. Which is a good thing. The bad thing is that reaching the limit is one of the markers of old age. You do not want it to happen too quickly, particularly in tissues that have to do a lot of dividing in order to work properly, such as those in the immune system.

It has been known for some time that chronic stress (caring for a child with a protracted illness, for example) causes premature shortening of the telomeres. What has not been clear is whether this is a one-way trip, with each stressful period turning the telomeric ratchet irreversibly. This week, though, at a meeting of the American Association for Cancer Research in Orlando, Florida, a group of researchers led by Edward Nelson of the University of California, Irvine, showed that it isn't. Their research suggests that stress management not only stops telomeres from shortening, it actually promotes their repair.

Dr Nelson drew this welcome conclusion from a previous study that measured the impact of telephone counselling on women who had been treated for cervical cancer. The study found that such counselling worked, both mentally and physically. Women who had been counselled reported that the quality of their lives had improved, compared with those of a control group who had not been counselled. They also showed improvements in the strength of their immune systems.

Given those benefits, Dr Nelson wondered if he could find others, and he re-examined the participants' samples to look at the lengths of the telomeres in their white blood cells (red cells have no nuclei, and therefore no chromosomes). What he

found surprised him. Not only did counselling stop telomere shrinkage, it actually promoted telomere growth. Those women for whom counselling had worked (ie, those who reported a decrease in emotional stress) had longer telomeres at the end than they did at the beginning. Their Hayflick countdowns were being reset.

A single such result must, of course, be treated with caution. But another study reported at the meeting, by Elizabeth Blackburn of the University of California, San Francisco (who shared the Nobel prize for the discovery of the enzyme that repairs telomeres), gave some support. This showed that exercise has a similar effect to counselling on the telomeres of the stressed.

If Dr Nelson's work is successfully replicated, it will shine more light on the ill-understood relationship between the health of the mind and the health of the body. For, as he points out, nothing actually changed in the lives of the women in question. They still had cancer, albeit under treatment, and they were still under stress. Nothing, that is, except their attitude.

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Mimicry

The first sparrowhawk of spring

To obtain better access to warbler nests, cuckoos mimic raptors

I wonder if we are......by any chance related?

THE resemblance between cuckoos and sparrowhawks has been a cause of comment since ancient times. As the photographs above show, the two birds (cuckoo on the left, sparrowhawk on the right) are similar in size, shape and plumage, and both have a conspicuous pattern of bars on their breasts-a pattern found on many species of hawk, but not on the cuckoo's relatives. Until now, though, no one has thought to take that observation any further, and test whether the one is truly mimicking the other. Cuckoos would have good reason to do so, since the warblers and other small birds in whose nests they lay their eggs are understandably frightened of hawks, and give them a wide berth. Such leeway would make it easier for a female cuckoo to lay where she chose.

Nick Davies and Justin Welbergen, a pair of ornithologists at Cambridge University, have now corrected that omission. They have tested the idea that cuckoos mimic hawks-or, at least, that warblers think cuckoos look hawklike. As they report in the latest edition of *Behavioral Ecology*, they have found that it is true, but only up to a point.

To carry out their test, Dr Davies and Dr Welbergen put stuffed birds near reed-warbler nests, to observe the nestholders' reactions. They used three species: sparrowhawks (which are a direct threat to a warbler's life), cuckoos (which do not harm adult warblers, but do stop them reproducing successfully) and doves (included as a control, since they pose no threat at all). The breast of each stuffed bird was adorned with a piece of white silk. Some pieces of silk were left plain. Others had bars drawn on them with a felt-tip pen. Once the stuffed birds were in place, the two researchers recorded the reactions of the nestholders. In particular, they measured how closely the nestholders were willing to approach the stuffed intruder, and also how noisily the intruder was mobbed, in an attempt to drive it away.

The barring, they found, was crucial. Though the warblers could clearly tell the difference between the species (they mobbed the cuckoos most and stayed farthest away from the sparrowhawks), in the cases of all three types of stuffed bird those decorated with stripes were approached more cautiously and mobbed less than those without stripes.

Hawk-like stripes do, then, provoke what is, from a cuckoo's point of view, the desired reaction: less of the sort of behaviour that is likely to interfere with her egg-laying mission. Not perfect mimicry, but good enough to be useful. Probably, Dr Davies and Dr Welbergen have caught cuckoo and warbler in the middle of an evolutionary arms race. Come back in 10,000 years and cuckoos and sparrowhawks may be indistinguishable.

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Pakistan

Post-uprisings depression

Two good books about an important but confusing country which has been driven, partly by American intervention, into strange ways

Pakistan: A Hard Country. By Anatol Lieven. *PublicAffairs; 558 pages; $35. Allen Lane; pound30*. Buy from Amazon.com, Amazon.co.uk

Deadly Embrace: Pakistan, America, and the Future of the Global Jihad. By Bruce Riedel. *Brookings Institution Press; 180 pages; $24.95 and pound16.99*. Buy from Amazon.com, Amazon.co.uk

IT IS a shame that these books should be published at a time when the world is riveted by events in the Middle East. Pakistan's population is more than half the size of the entire Arab world; for most of the past three decades it has been involved in a war with a superpower, first against it, and now on the same side as it; it suffers from an Islamic insurgency

that has killed 30,000 people over the past four years; it is regarded by students of geopolitics as the most likely location of nuclear conflict; and the reasons why it does not work as a country are many and fascinating.

The trouble with Pakistan's story is that the country is one rather depressing stage on from the Middle East. Its people have risen up bravely against autocrats (three times over, if you count only the generals, or four if, like some Pakistanis, you count Zulfikar Ali Bhutto as well) and had several unsuccessful attempts at democracy. So it ricochets between military and civilian governments, with a state that does not work very well but has not collapsed, and an insurgency that is not turning into a civil war but won't go away. Unlike the Middle East, it is not full of hope.

Yet for drama, colour and complexity, the place is hard to beat; and Anatol Lieven captures the richness of the place wonderfully. His book has the virtues of both journalism and scholarship-not surprising, since Mr Lieven used to be a reporter for the *Times* and is now at King's College, London. He has travelled extensively and talked widely, to generals, shopkeepers, farmers, lawyers and bureaucrats.

He quotes the people he meets with both sympathy and scepticism, pointing to "Pakistani society's ability to generate within an astonishingly short space of time several mutually incompatible versions of a given event or fact, often linked to conspiracy theories which pass through the baroque to the rococo"-a characteristic which anybody who has worked there will recognise. He has a great affection for the country, which he describes as "a place that cries out for the combined talents of a novelist, an anthropologist and a painter." Aside from occasional bits of horrible writing, he does it justice.

The notion that Pakistan is approaching the condition of a failed state is popular these days. Mr Lieven rejects it. The state may be weak, but in his view society is strong, which both holds the place together and frustrates attempts to modernise it. For instance, Mr Lieven finds the official bit of the legal system-the police, lawyers and judges-horribly wanting. "When I visited the city courts in Quetta, Baluchistan, a majority of the people with whom I spoke outside had cases which had been pending for more than five years, and had spent more than 200,000 rupees [$4,500] on legal fees and bribes-a colossal sum for a poor man in Pakistan."

Many therefore turn to tribal courts, or to the Pakistani Taliban in areas where they are strong. Few outsiders would recognise some of the tribal courts' decisions as justice-girls are traditionally given as compensation for particularly serious crimes-yet service is speedy and generally reckoned to be superior to that provided by the state. Indeed, this is one of the main reasons why the Taliban's rise was, at least initially, widely welcomed.

Democracy, similarly, sits uncomfortably with traditional society. Politics is dominated by big landowners and tribal chiefs, who regard their job not as developing the country's economy and civil institutions for the good of all Pakistanis, but as distributing patronage to their clan or tribe; and that's how government is run. Values diverge radically from those normally associated with representative democracy. In 2008, three teenage Baluch girls were shot and buried alive for refusing to marry the husbands chosen for them by their tribes. A tribal chief, a senator belonging to the Pakistan People's Party of President Asif Ali Zardari, commented: "these are centuries-old traditions and I will continue to defend them. Only those who commit immoral acts should be afraid." The man was subsequently made a federal minister.

Mr Lieven thinks growing resentment at the hierarchical nature of Pakistani society has helped the Taliban. Educated Pakistanis would ask of some Islamist on the rise: "Who on earth can respect a former bus conductor as a leader?" The answer, says Mr Lieven in rather cross italics, is "*another bus conductor*...It is precisely the lowly origins of the Taliban...which endear them to the masses."

Still, Mr Lieven reckons that because of the strength of traditional social bonds, which tie individual to family, and family to tribe or clan, "Pakistani society is probably strong enough to prevent any attempt to change it radically through Islamist revolution, which is all to the good." Bruce Riedel is less sanguine. He regards "a jihadist victory" in Pakistan as "neither imminent nor inevitable...[but] a real possibility that needs to be assessed". It might come about, he reckons, as a result of a military coup by an officer sharing the world- view of General Zia ul Haq, or as a result of an insurgent victory; neither of which Mr Lieven's analysis suggests is likely.

Though Mr Lieven knows Pakistan from the inside, Mr Riedel, who has advised no fewer than four American presidents, knows power from the inside-something he is keen to share with the reader. Every chapter starts with some version of "We were aboard Air Force One en route to California when I began briefing President Barack Obama..."

For readers who can successfully suppress their irritation, his book provides a useful account of the dysfunctional relationship between Pakistan and America. The governments are supposedly close allies, yet betray each other with monotonous regularity. After the Soviet Union left Afghanistan, America abandoned Pakistan for India. Pakistan both

helps America in its war against the Afghan Taliban and-playing both sides-allows Taliban fighters to conduct attacks in Afghanistan from Pakistani territory. Pakistan's people regard America with deep suspicion, and Pakistan's Taliban is taking up the baton of global (and particularly anti-American) terror from a weakened al-Qaeda.

Although the books disagree somewhat about Pakistan's prospects, they are not far apart on at least one important aspect of its past. America's interventions, argues Mr Riedel, have made it "harder for Pakistanis to develop a healthy democracy that can effectively fight terror", by encouraging military interference in civilian affairs. "It has above all been the US-led campaign in Afghanistan," says Mr Lieven, "which has been responsible for increasing Islamist insurgency and terrorism in Pakistan since 2001." These two books, in different ways, sharply illustrate an uncomfortable truth about American foreign policy: that the war in Afghanistan has helped foster in Pakistan exactly the sorts of tendencies that America went into Afghanistan to wipe out.

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Men, women and babies

It just isn't fair

Who looks after the children?

Shattered: Modern Motherhood and the Illusion of Equality. By Rebecca Asher. *Harvill Secker; 262 pages; pound12.99*. Buy from Amazon.co.uk

ONE of the many persuasive sections in this excellent and readable book on the perils of parenting concerns infants' bedtimes, and how authoritarian one should be about them. Do you endure weeks of screaming while your child is lashed willy-nilly to his cot? Or do you tolerate bun fights and flung toys while valiantly trying to distract him with hand puppets or suggestions of potato-printing?

Any mother knows this one by heart, even if she never got around to potato-printing. So do a lot of fathers, despite the basic premise of the book-that most women who set off on a footing of equality with their partners are betrayed by them

when babies arrive. Mothers become "foundation parents" and de facto household drudges, condemned to professional sidelining and "crap part-time jobs" because fathers fail to pull their weight.

It is not that men are malevolent. But, at least in Britain, government policies do not encourage them to take equal responsibility for their children, lavishing (largely underpaid) leave on new mothers and only recently offering fathers more (underpaid) time off. Employers frown on it. Society and social services entrench the mother's role. The promise of equality that this generation of new mums thought their feminist mothers had secured for them is an illusion, says Rebecca Asher, a broadcast journalist with a toddling son.

More British women than men now go to university. In their 20s women working full-time earn 3% less than men; the gap gapes to 11% when they are in their 30s, skulking down in the service lift to fetch offspring from school or taking sick leave when it is their child who is ill. Most mothers do not work full-time anyway (though the proportion who do is growing), and their part-time jobs are ill-rewarded.

This is for the most part familiar stuff, which isn't to say that it is wrong or irrelevant. Where the book is more original is in its analysis of what often happens to couples when the mother gets sucked into becoming First Parent while the father's career progresses. The balance of power shifts in the relationship. Mothers feel victimised, fathers feel guilty, mothers define themselves by assuming command on the home front, fathers convinced of their own parental incompetence stay later at work. The pair that started out hand-in-hand on an equal-opportunity journey through life end up sniping at each other, or scoring weary points. Many split up.

Some couples of course manage to parent and win bread pretty equally; in others the father stays home and the mother sallies forth to hunt and gather. But they are the minority. A growing number of women in Britain, mainly educated ones, are choosing not to have children. A growing number of men, feeling themselves surplus to requirements at home and increasingly in competition with women at work, wonder where on earth their sex fits in.

Britain's coalition government, which markets itself as family-friendly and has already increased paternity leave, plans to do more for working parents. New rules brewing in the European Union could force the pace. But the government is unlikely to go as far as Ms Asher would like.

She wants parental leave when a baby is born to be reformed along mainly Nordic lines: ring-fencing half a year off for mothers and another half-year for fathers, on a use-it-or-lose-it basis. The time off would be well enough paid for both parents to afford to take it. Beyond that, she wants everyone to be allowed to work flexibly; good, affordable child care for all; and schools to look after children longer. It's a bit too prescriptive, and it sounds otherworldly at a time of deep spending cuts in Britain. But the thrust is right, if you accept the basic argument that it is the system frustrating women in their desire to go back to work, and that men can be bribed into taking up the domestic slack.

The basic argument, however, is not the full story, and Ms Asher is honest enough to recognise that. Choice plays a part in parenting, as in most things. Not all women do want to go back to work, which may be every bit as demanding as looking after children and far more competitive. "Maternal gatekeeping", setting oneself up as the competent parent who knows which day Johnny has violin lessons, can be a way of avoiding that challenge while keeping one's pride. Of course fathers could learn the job, given half a chance. But again, many men don't want to, however much they love their children.

It is always tempting to look to Nordic practice in matters like this: their outcomes seem better, their societies more cohesive. But Britain is a tough, competitive, unequal place, disdainful of conformity and deeply conservative about a surprising number of things. In many ways it is closer to America, where the government stingily but even-handedly pays neither parent to look after children. Ms Asher does very well to define a real problem, but the solution to it may be less clear-cut than she suggests.

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The life of Malcolm X

What he might have become

The fascinating evolution of his beliefs

Too short a journey

Malcolm X: A Life of Reinvention. By Manning Marable. *Viking Adult; 592 pages; $30. Allen Lane; pound30*. Buy from Amazon.com, Amazon.co.uk

MALCOLM LITTLE had several names before his life ended in assassination in a New York theatre in 1965. As a youthful hustler, petty thief and drug-dealer he was "Detroit Red". As a pious Sunni Muslim he became El-Hajj Malik El-Shabazz. But in most memories he remains Malcolm X, the charismatic public face of the Nation of Islam, which preached that whites were devils and that black separatism was the answer to America's problems of race.

Whatever the name, Malcolm's short life (he was slain at 39) makes a fascinating story and is told well by Manning Marable, director of Columbia University's Institute for Research in African-American Studies, who sadly died a few days before his book was published this week. The fascination lies in the evolution of Malcolm's beliefs: from the black nationalism and pan-Africanism of Marcus Garvey through the black separatism of the Nation of Islam to the colour-blind embrace of orthodox Islam. The tale includes the burning down of Malcolm's childhood home, the ruthless brutality of Nation of Islam thugs, the sexual philandering of the Nation's spiritual leader, Elijah Muhammad, and the enthusiasm with which political and religious elites embraced Malcolm on his trips to Europe, Africa and the Middle East.

Some of this detail comes from "The Autobiography of Malcolm X", related by Malcolm to Alex Haley (later to become famous as the author of "Roots") and published just after Malcolm's death. But Mr Marable argues that the autobiography was more of a memoir-hence the exaggeration of the young Malcolm's involvement in hard-core crime-than a solid exercise in objective fact. Rather than rely on the autobiography, Mr Marable has scoured contemporary press clippings in America, Europe and Africa. He has benefited, too, from the recent release to the public of hundreds of Malcolm's letters, photographs and texts of speeches.

Malcolm was only one of the prominent black figures in America's turbulent racial politics of the early 1960s. John Lewis, now a member of the House of Representatives, was organising the Freedom Riders in an attempt to register black voters in the American South; Martin Luther King was preaching non-violence in the black quest for civil rights; and Stokely Carmichael, one of the Freedom Riders but soon to join the Black Panther Party, was becoming impatient with non-violence and coining the slogan "black power".

It was Malcolm, however, who appealed most to poor blacks, rural and urban alike: "Impoverished African Americans could admire Dr King, but Malcolm not only spoke their language, he had lived their experiences-in foster homes, in prisons, in unemployment lines," writes Mr Marable. The question was how Malcolm would use this appeal.

He was originally Elijah Muhammad's favoured disciple, but his attraction to politics did not fit with the Nation's refusal to be involved in the civil-rights movement. By early 1964 Malcolm had formally left the Nation. The estrangement was both personal, thanks to the jealousy Malcolm had provoked at the Nation's headquarters, and ideological: his conversion

to orthodox Islam was at odds with the heresies of the Nation (not only did Elijah Muhammad claim to be a new prophet but the Nation's founder, Wallace Fard, had claimed to be the personification of Allah).

Was the Nation responsible for Malcolm's murder? Its leaders denied any link, but Louis Farrakhan, later to become the Nation's leader on the death of Elijah Muhammad, had declared in December 1964 that: "Such a man as Malcolm is worthy of death." As Mr Marable notes: "This code phrase was a call to arms within the sect." The conviction of three men from the Nation failed to silence sceptics who suspected police and FBI complicity.

Mr Marable avoids judgment on the assassination. Instead he examines Malcolm's legacy. Whereas King appeared on an American stamp and has a national holiday in his honour, Malcolm appeared on an Iranian stamp and has been lauded by al-Qaeda. Mr Marable speculates on what might have been if Malcolm had lived: "As his social vision expanded to include people of divergent nationalities and racial identities, his gentle humanism and antiracism could have become a platform for a new kind of radical, global ethnic politics." Maybe. Yet some may feel that this conclusion rests more on the author's wishful thinking than on the reality of the life he describes so well.

Islamic art

A connoisseur and his treasures

Stuart Cary Welch's collection was auctioned this week for record prices

A dragon, and much else, for your delight

A FAMOUS connoisseur, charismatic teacher and voracious collector of Indian and Islamic art, Stuart Cary Welch died three years ago, aged 80. This week, as 164 lots from his Islamic collection were auctioned at Sotheby's, London was crackling with talk of this American patrician and his fabled eye.

Though many pieces attracted interest, the keenest attention was paid to a painting (shown on display) from the Shahnameh of Shah Tahmasp. This luxurious 16th-century book, with lyrical calligraphy on gold-spattered pages, contains 258 painted miniatures illustrating an 11th-century Persian epic poem by Ferdowsi. "It is probably the greatest illustrated manuscript ever produced," claims Michael Brand, an adviser to the Aga Khan Museum in Toronto. Mr Brand was Welch's student at Harvard, as were Sheila Canby, head of Islamic Art at the Metropolitan Museum, and Glenn Lowry, director of the Museum of Modern Art.

Welch started collecting Indian and Islamic art when he was nine and he never stopped. He was open-minded and self-confident. The result, for its quality and range, was one of the world's greatest private collections. The 1978 Merchant Ivory film, "Hullabaloo Over Georgie and Bonnie's Pictures", illustrates this, literally. The film follows art stalkers yearning to acquire a maharajah's hidden collection of miniatures. When, finally, the dusty cloth bundles are unwrapped, the screen dances with colourful images of painted works-all of which belonged to Welch.

He wrote about art beautifully, evoking the wit or malice of the people and mythological beasts portrayed. The reader is drawn into the paintings and into contact with their creators. This gift, coupled with his enthusiasm and deep if not academically couched knowledge, inspired students, collectors and the public. In the early 1960s Welch began curating exhibitions of Islamic and Indian art. At the time hippies were hitching to India but in the West the map of "serious art" had an empty quarter stretching from Vienna to China. "He really did change the perception of Indian art in America," says Mr Brand.

Welch was always ready to pounce. When he read in 1957 that Maurice de Rothschild, then the owner of the Shahnameh, had died, he was off in pursuit of it. From then on, his life and that of the manuscript were intertwined. The baron's heirs had sent it to a New York dealer with a price tag of $500,000 ($3.9m in today's dollars). Welch felt he could not afford this (the Metropolitan Museum decided the same) and approached Arthur Houghton, a wealthy bibliophile. He hoped that Houghton, who had contributed generously to Harvard's rare-books library, would also donate this treasure. In 1959 Houghton did indeed buy the book but, to the horror of many, including Welch, after showing off his acquisition, he broke it up.

In 1976 Houghton auctioned seven of its paintings at Christie's for pound863,500 ($1.6m): nearly four times more than the $450,000 he had paid for the whole book. He gave 78 pages to the Metropolitan where he was chairman of the trustees. When he died in 1990, 120 pages remained in the manuscript. These went back to Iran in 1994 in a swap for "Woman III" by Willem de Kooning, an abstract expressionist painter. Each side of the swap was valued at $20m.

In 1977 Welch bought one of the miniatures that Houghton had sold to Agnew, a London dealer. "Terrible effort", he wrote of the cost, but "a triumph". This week the page sold for pound7.4m ($12.2m), almost four times the estimate and a world auction record for an Islamic work of art.

Some think that Sotheby's set low estimates for the sale in order to lure bidders. If so, the ploy succeeded. For instance, in addition to the whopping price for the Shahnameh miniature, a fantastical gold-hilted dagger set with rubies, went for pound802,850, ten times its top estimate. The total at the end of the sale was pound21m ($34m).

The art world is no longer Eurocentric. Buyers from Qatar and elsewhere in the region were active. But many bids came from the Western market that Welch had done so much to create. One example of his industry: in 1981 he and Martin Dickson, a Persian scholar, published "The Houghton Shahnameh", a two-volume study, years in the making, that Ms Canby says is "the definitive statement on that masterpiece".

Near the end of his life Welch, together with Francesca Galloway, a London dealer, selected 50 of his choice Islamic works, including two of the four Shahnameh paintings he then owned, and sold them to Qatar. But Welch, says Ms Galloway, always kept back the cream for himself. His heirs learned from a master. The last of his Shahnameh miniatures is among the works from his collection that they still retain.

A facsimile edition of all 258 illuminated pages of the Shahnameh will be published by the Metropolitan Museum when its new Islamic galleries open in November, and will cost $200

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New Broadway musical

Saved by elders

A show that mocks the pieties and sends its audience home laughing

THE musical had been declared dead. Broadway's producers have sunk millions into tarting up old classics or adapting Disney's latest gob of sugary goo in search of the next hit. But even tourists have tired of shelling out good money for dumb glitz-unless it involves the perverse thrill of watching a harnessed superhero fall from the rafters.

Now, like the ancient gold plates that Joseph Smith, the founder of Mormonism, unearthed in upstate New York, the musical's saviour has come in an unexpected package. Debunking the myth that a popular show must be as inoffensive as oatmeal, along comes "The Book of Mormon", which skewers any number of pieties, including religion, Western imperialism and Disney's "The Lion King", all with great music to dance to.

The production is the work of Trey Parker and Matt Stone, the men behind the cartoon television show "South Park", now in its 14th year. With music from Robert Lopez (a talent behind "Avenue Q", one of Broadway's longest running musicals), and confident direction and choreography from Casey Nicholaw, the show follows two young missionaries-the square-jawed Elder Price (Andrew Rannells) and the round, goofy Elder Cunningham (Josh Gad)-as they woo converts in Uganda.

With their white shirts, black ties and wholesome smiles, these men are the picture of well-meaning ignorance in a poor village ruled by a sadistic warlord. But the locals crave hope, which Elder Cunningham delivers with inventive stories about Joseph Smith: ("You shall not have sex with that infant", thus the Lord spaketh). Suddenly the villagers all want to be baptised. The tales are ridiculous, but, after all, what religion is free from weirdness?

What makes "The Book of Mormon" work is its joyful mix of good music, knowing humour and unexpected compassion. Mormonism, an easy target, gets a grilling, but so do social conservatism, cliched plot-lines and any sort of blind faith. Like "South Park" but a bit tamer, the show sends up human flaws and hypocrisy without malice. Some laughs come cheaply (the word "scrotum" could be used more sparingly), but most are earned and many are hearty. The result is a warm tribute to the glories of show business, with razzamatazzy numbers that come with a rare and welcome wink.

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Edward Stobart

Edward Stobart, king of independent hauliers, died on March 31st, aged 56

SINCE first impressions were the most important, Edward Stobart's lorries were not only big. They were not only beautifully liveried in white, red and gold and Brunswick (later Stobart) green. They were immaculate. They gleamed. He cleaned them himself, even on Christmas Eve. If it meant sleeping on a filing shelf in the office to catch them before they

went out again, he did it. He cleaned them in the early years, when they'd hauled lime and slag all day on the roads round Carlisle, and he was still cleaning them in 1985 when he had 26 of them. He had a KÃ¤rcher heavy-duty washer by then, but there were always bits he liked to finish off by hand when everyone else had gone home.

And not only the lorries were smart. Open the door, and out would climb a driver in black trousers and a green jacket, with a "flying S" motif sewn on the pocket and a silk polyester tie. The Stobart uniform. His own design. It got a bit of mocking in the caffs, of course. But it made the drivers professional, proud of what they were doing. And it made Stobart's different and famous. By 2000 the firm had 25,000 fans spotting the lorries, listing every sighting, collecting the girl's names painted on every cab (from "Twiggy" and "Tammy", Mr Stobart's young fancies, to homely "Joan Doreen"). They waved from their cars and from motorway bridges as his lorries thundered by. His drivers were instructed to wave smartly back.

Yet behind all this show Mr Stobart hid himself. The huge-lettered name on the lorries, EDDIE STOBART, the one that featured in all the pop songs and the jokes, wasn't even his. It was his father's. He himself was always Edward. But while his father did contract work for fell farmers round Hesket Newmarket in Cumbria with lime-spreaders and threshing machines, Edward, at 14, was on a JCB planting signs on the new M6. He took charge of his father's few lorries almost before he was shaving. He built the business into a colossus and himself into a multimillionaire with a bright red Ferrari, though for much of that time he was the unknown man eating egg and chips in the lorry park, with oily hands from all that cleaning.

Partly because of his stammer, brought on by a fall through a roof as a lad, and partly because people from Hesket didn't talk too much as a rule, he didn't care to meet strangers. He was polite, but his business was his own affair. It was his own in 1976 when he acquired his first lorries, two brand-new DAFS at pound20,000 ($36,000) each on hire purchase, and it was his own in 2001 when he had 1,000-plus lorries, mostly Scania R series and Volvo FHs, and a turnover of pound150m. His interest was 55%; his brother William had the other 45%. He wouldn't think of a public flotation. Shareholders and financial advisers just got in the way, slowed you down. Letting other people in was always a backward step.

By 2001 he was king of Britain's independent road hauliers. He'd won the contracts for Metal Box (his big breakthrough), *Mirror* group, Britvic, Gerber and Coca-Cola-Schweppes. On the map of modern Britain, with giant supermarkets and depots joined up by motorways, his lorries were like bright ants in constant motion between them.

Spotting the signs

People wondered how he'd done it. Much of the answer was to work all God's hours, all the time. His honeymoon was a night in Morecambe before he had to run a load to Hartlepool. He'd never been any good at school (he just sat there, drawing tractors), but he could cost things in his head with no trouble. Do the sums, make the plans, seize the chances. Most of all, move from the dirty end of the business to the indispensable clean end, food and drink.

He liked to buy his lorries new, and he preferred hire purchase because you kept your cash and made it grow. Never part with your money. Even as a lad, selling bags of firewood he had chopped himself, he kept all his savings on him in his trouser pocket. He bought his first car, a Mini Clubman, when he was 18, with pound780 pulled carefully out in notes. That made the dealer take his cigar out of his mouth.

A lot of it was image and impression, he confessed. He didn't hesitate to lie about how many lorries he had, if it got him the work. (Everyone thought he had more than he had anyway, because they were so famous.) He would sort out the logistics later. With his stammer, it was much easier to say "No problem" than to start picking difficulties. Just get the artics on the road. For ten years, his business was growing at 60% a year. He didn't make a loss till 2002, when he was hard hit by the rise in road tax and diesel prices. Two years later he sold his stake to William, and took no part in the new, publicly listed company.

He told Hunter Davies, who wrote his firm's biography, that he never saw himself as a trucker. He liked lorries to look good, like ladies really, but he didn't love them. He couldn't see himself as a member of stobartsaddos.com, shivering in their Stobart anoraks on some suburban slip-road. Driving up the M6, while others were hailing his lorries or bursting into the Hallelujah chorus ("Ed-die Stobart") every time, he was looking instead for the road signs he had planted as a young man. There was more to them than people thought. They were ten feet tall, obviously. But they also went ten feet deep.
